

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION

In re  
PACIFIC GAS AND ELECTRIC COMPANY,  
a California corporation,  
  
Debtor.  
  
Federal I.D. No. 94-0742640

Case No. 01 30923 DM  
Chapter 11 Case  
[No Hearing Requested]

DISCLOSURE STATEMENT FOR THE CALIFORNIA PUBLIC  
UTILITIES COMMISSION'S PLAN OF REORGANIZATION  
UNDER CHAPTER 11 OF THE BANKRUPTCY CODE  
FOR PACIFIC GAS AND ELECTRIC COMPANY  
[Dated May 17, 2002]

Counsel for the California Public Utilities  
Commission:

Gary M. Cohen  
Arocles Aguilar  
Michael M. Edson  
CALIFORNIA PUBLIC UTILITIES  
COMMISSION  
505 Van Ness Avenue  
San Francisco, California 94111  
(415) 703-2782

Alan W. Kornberg  
Brian S. Hermann  
Susan E. Welber  
Marc F Skapof  
PAUL, WEISS, RIFKIND, WHARTON  
& GARRISON  
1285 Avenue of the Americas  
New York, New York 10019-6064  
(212) 373-3000

**TABLE OF CONTENTS**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

	<b>Page</b>
I. INTRODUCTION.....	1
A. Chapter 11 .....	5
B. Summary Of The Plan Of Reorganization .....	6
C. Holders Of Claims And Equity Interests Entitled To Vote.....	8
D. Voting Procedures .....	10
1. General. ....	10
2. Beneficial Owners of Bonds, Notes, Debentures or Shares of Stock.....	11
3. Nominees of Beneficial Owners of Bonds, Notes, Debentures or Shares of Stock.....	12
4. Securities Clearing Agency.....	12
E. Confirmation Hearing .....	12
F. Miscellaneous.....	12
G. The Competing Plan Process .....	14
II. OVERVIEW OF THE CLAIMS AND EQUITY INTERESTS.....	15
A. Summary Claims Table.....	15
B. Claims Objection Process.....	32
III. DESCRIPTION AND HISTORY OF THE DEBTOR’S BUSINESS.....	33
A. Overview .....	33
B. Operations .....	34
1. Electric Utility Operations. ....	34
2. Gas Utility Operations.....	34
C. Regulation .....	35
D. Unions/Workers’ Compensation.....	36
1. Unions. ....	36
2. Workers’ Compensation Obligations.....	36
E. Litigation.....	37

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

1.	Rate Recovery Litigation.....	37
2.	Compressor Station Chromium Litigation.....	38
3.	BFM Contract Seizure Litigation.....	41
IV.	EVENTS PRECEDING COMMENCEMENT OF THE CHAPTER 11 CASE.....	42
A.	Electric Restructuring Background.....	42
B.	Rise in Wholesale Electricity Prices in 2000.....	45
C.	Legislative and Commission Action in 2001 Prior to the Chapter 11 Case.....	46
V.	THE REORGANIZATION CASE.....	48
A.	Commencement of the Chapter 11 Case.....	48
B.	Administration of the Chapter 11 Case.....	48
1.	First Day Orders.....	48
2.	Second Day Orders.....	48
3.	Third Day Orders.....	48
4.	Creditors' Committee.....	49
5.	Public Purpose Programs.....	49
6.	Assumption of Hydroelectric Power Purchases.....	50
7.	Pre-Petition Property Taxes.....	50
8.	Request for Preliminary Injunction against the ISO.....	50
9.	Denial of Ratepayers' Committee.....	51
10.	Authorization of Employee Related Matters.....	51
11.	The Accounting True-Up.....	52
12.	PG&E's Extension of the Exclusivity Period.....	53
13.	Further Extension of Exclusivity Denied.....	53
14.	Omnibus Motions.....	54
15.	Extension of Time for Assuming or Rejecting Real Property Leases.....	54
16.	QF Agreements.....	54
17.	PG&E's Support Agreement with the Committee and Modifications Thereto.....	56

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

18.	Sempra Settlement Agreement.....	59
19.	Claims Management Motions. ....	60
20.	Stipulation with Letter of Credit Issuing Banks and Banks.....	61
21.	Motion to Assume Main Line Extension Contracts.....	61
22.	Memorandum Decision Regarding Preemption and Sovereign Immunity. ....	62
23.	Settlement and Support Agreement with Senior Debtholders and Agreement with Letter of Credit Issuing Banks.....	64
24.	Motion Seeking Authorization to Pay Certain Claims.....	65
25.	Statement of PG&E Proponents’ Intentions.....	65
26.	The Commission’s URG Decision.....	67
27.	Foundation for Taxpayer and Consumer Rights Suit.....	68
28.	The Commission’s Order Instituting Investigation.....	68
VI.	THE PLAN OF REORGANIZATION.....	69
A.	Overview.....	69
B.	Classification And Treatment of Claims and Equity Interests.....	70
1.	Administrative Expense Claims.....	72
2.	Professional Compensation and Reimbursement Claims.....	73
3.	Priority Tax Claims.....	74
4.	Class 1 - Other Priority Claims.....	74
5.	Class 2 - Other Secured Claims.....	75
6.	Class 3 - Secured Claims Relating to First and Refunding Mortgage Bonds.....	75
7.	Class 4a - Mortgage Backed PC Bond Claims.....	76
8.	Class 4b - MBIA Insured PC Bond Claims.....	77
9.	Class 4c - MBIA Claims.....	77
10.	Class 4d - Letter of Credit Backed PC Bond Claims.....	78
11.	Class 4e - Letter of Credit Bank Claims.....	78
12.	Class 4f - Prior Bond Claims.....	84
13.	Class 4g - Treasury PC Bond Claims.....	86

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

14.	Class 5 - General Unsecured Claims.....	86
15.	Class 6 - ISO, PX and Generator Claims.....	87
16.	Class 7 - ESP Claims.....	88
17.	Class 8 – Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims. ....	89
18.	[Intentionally Blank] .....	92
19.	Class 10 - Convenience Claims.....	92
20.	Class 11 - QUIDS Claims. ....	92
21.	Class 12 - Workers’ Compensation Claims. ....	93
22.	Class 13 - Preferred Stock Equity Interests.....	93
23.	Class 14 - Common Stock Equity Interests.....	94
C.	Plan Implementation .....	94
1.	Issuance of Securities Under the Plan.....	94
2.	Exit Facility.....	96
3.	The Commission’s Efforts to Secure Financing. ....	96
4.	Settlement of Litigation.....	98
5.	New Tax Sharing Agreement.....	100
6.	Regulation. ....	101
7.	Pre-Effective Date Servicing of the Net Open Position.....	102
8.	DWR Contracts. ....	103
D.	Method of Distribution Under the Plan.....	103
E.	Timing of Distributions Under the Plan.....	104
F.	Treatment of Executory Contracts and Unexpired Leases.....	106
G.	Provisions for Treatment of Disputed Claims.....	111
H.	Objections to and Resolution of Administrative Expense Claims and Claims.....	112
I.	Payment of Trustee’s, Issuer’s and Certain Banks’ Fees.....	113
J.	Conditions Precedent to Confirmation of the Commission’s Plan .....	113
K.	Conditions Precedent to Effectiveness of the Commission’s Plan .....	114

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

L. Implementation and Effect of Confirmation of the Commission’s Plan..... 115

M. Discharge and Injunction ..... 116

N. Voting..... 117

    1. Voting of Claims. .... 117

    2. Elimination of Vacant Classes. .... 118

    3. Nonconsensual Confirmation..... 118

O. Summary Of Other Provisions Of The Plan..... 118

    1. Amendment or Modification of the Plan..... 118

    2. Cancellation of Existing Securities and Agreements. .... 119

    3. Revocation or Withdrawal of the Commission’s Plan..... 120

    4. Termination of the Committee. .... 120

    5. Effectuating Documents and Further Transactions..... 120

    6. Release of Certain Parties. .... 120

    7. Exculpation..... 121

    8. Corporate Governance; Articles of Incorporation and Bylaws..... 122

    9. Commission’s Plan Supplement..... 123

    10. Retention of Jurisdiction. .... 123

    11. Exemption of Transfer Taxes..... 125

    12. Fees and Expenses..... 125

    13. Payment of Statutory Fees..... 126

    14. Severability..... 126

    15. Binding Effect. .... 126

    16. Governing Law..... 126

    17. Withholding and Reporting Requirements..... 126

    18. Allocation of Plan Distributions..... 127

    19. Minimum Distributions. .... 127

    20. Subrogation Rights..... 127

    21. Corporate Action..... 127

1	22.	Notices.....	127
2	VII.	CONFIRMATION AND CONSUMMATION PROCEDURE.....	129
3	A.	Solicitation Of Votes.....	129
4	B.	The Confirmation Hearing.....	130
5	C.	Confirmation.....	131
6	1.	Acceptance.....	131
7	2.	Unfair Discrimination and Fair and Equitable Tests.....	132
8	3.	Feasibility and Projections; Valuation.....	133
9	4.	Best Interests Test.....	135
10	D.	Consummation.....	137
11	VIII.	FINANCIAL INFORMATION.....	137
12	IX.	SECURITIES LAWS MATTERS.....	138
13	X.	CERTAIN RISK FACTORS TO BE CONSIDERED.....	139
14	A.	Certain Bankruptcy Law Considerations.....	139
15	1.	Risk of Non-Confirmation of the Plan.....	139
16	2.	Nonconsensual Confirmation.....	140
17	3.	Risk of Non-Occurrence of the Effective Date.....	140
18	B.	Risk Factors Related To Sale Of Securities Under The Plan.....	140
19	1.	Creditworthiness Risks.....	140
20	2.	Exit Facility.....	141
21	3.	Reorganized Debtor New Money Notes.....	141
22	4.	Sale of Equity.....	142
23	5.	Interest Rate Risk.....	142
24	C.	Estimates of Allowed Claims.....	142
25	D.	Regulatory Risks.....	142
26	E.	Tax Risks.....	143
27	F.	Litigation Risks.....	143
28			

1	XI.	DESCRIPTION OF CERTAIN CLAIMS .....	144
2		A. Pollution Control Bonds.....	144
3		1. General.....	144
4		2. Mortgage Backed PC Bonds.....	147
5		3. Letter of Credit Backed PC Bonds.....	148
6		4. MBIA Insured PC Bonds.....	150
7		5. Prior Bonds.....	151
8		6. Treasury PC Bonds.....	152
9	XII.	CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE COMMISSION'S PLAN .....	152
10		A. Introduction.....	152
11		B. Consequences to the Debtor.....	154
12		1. Distributions of Cash in Satisfaction of Claims.....	154
13		2. Issuance of Equity Interests and Reorganized Debtor New Money Notes.....	154
14		3. Treatment of Escrow(s).....	155
15		C. Consequences to Holders of Impaired Claims .....	155
16		1. Distributions of Cash in Satisfaction of Claims.....	155
17		2. Distributions of Cash in Discharge of Accrued Interest.....	156
18		D. Consequences to Holders of Equity Interests.....	156
19		1. Preferred Stock Equity Interests.....	156
20		2. Equity Interests.....	157
21		E. Information Reporting And Withholding.....	158
22			
23	XIII.	ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE COMMISSION'S PLAN .....	159
24		A. Liquidation Under Chapter 7.....	159
25		B. Alternative Plan Of Reorganization .....	160
26		C. Liquidation Under Chapter 11.....	160
27	XIV.	CONCLUSION AND RECOMMENDATION .....	161
28			



1 **I. INTRODUCTION<sup>1</sup>**

2 On April 6, 2001 (the "Petition Date"), Pacific Gas and Electric Company ("PG&E" or  
3 the "Debtor") filed a petition for relief under chapter 11 of the Bankruptcy Code with the United  
4 States Bankruptcy Court for the Northern District of California (the "Court"). The California  
5 Public Utilities Commission (the "Commission") is an agency of the State of California charged  
6 with regulating utilities serving customers within the State of California, including PG&E, and is  
7 also a creditor of PG&E. Effective February 27, 2002, the Court terminated PG&E's exclusive  
8 right to file a plan under section 1121 of the Bankruptcy Code to permit the Commission to file  
9 an alternate plan of reorganization for PG&E by April 15, 2002. Accordingly, on April 15,  
10 2002, after a unanimous 5-0 vote by the Commission, the Commission filed its Plan of  
11 Reorganization Under Chapter 11 of the Bankruptcy Code for PG&E (as amended, modified or  
12 supplemented from time to time, the "Commission's Plan" or the "Plan"), which sets forth the  
13 manner in which Claims against and Equity Interests in PG&E would be treated under the  
14 Commission's Plan. A copy of the Commission's Plan is attached hereto as Exhibit A. This  
15 Disclosure Statement (as amended, modified or supplemented, the "Disclosure Statement")  
16 describes certain aspects of the Commission's Plan, PG&E's business and related matters.

17 The Commission, in consultation with its legal and financial advisors, Paul, Weiss,  
18 Rifkind, Wharton & Garrison ("Paul, Weiss"), and Chanin Capital Partners, LLC ("Chanin"),  
19 respectively, has concluded that recoveries to creditors and equity holders would be more certain  
20 and received sooner under the Commission's Plan. In other words, the Commission believes that  
21 creditors are better off if PG&E's business were to remain intact rather than be disaggregated  
22 into separate business entities (as proposed by PG&E) or liquidated.

23 Specifically, the Commission's Plan contemplates: (i) payment in full in Cash of  
24 Allowed Administrative Expense Claims, Professional Compensation and Reimbursement

25 \_\_\_\_\_  
26 <sup>1</sup> In submitting this Plan and its accompanying Disclosure Statement, the Commission does not waive any  
27 objections or defenses that the Commission or any agency, unit or entity of the State of California may  
28 have to this Court's jurisdiction over the Commission or the State based upon the Eleventh Amendment of  
the U.S. Constitution or related principles of sovereign immunity or otherwise, all of which are hereby  
reserved.

1 Claims, Priority Tax Claims, Other Priority Claims, QUIDS Claims, General Unsecured Claims,  
2 ISO, PX and Generator Claims, ESP Claims, Convenience Claims and MBIA Claims, including  
3 pre-petition and Post-Petition Interest (except on Administrative Expense Claims and  
4 Professional Compensation and Reimbursement Claims); (ii) payment in full in Cash or  
5 reinstatement of Other Secured Claims, including interest to the extent permitted;  
6 (iii) reinstatement of Secured Claims Relating to First and Refunding Mortgage Bonds,  
7 Mortgage Backed PC Bond Claims, MBIA Insured PC Bond Claims, Letter of Credit Backed PC  
8 Bond Claims, Treasury PC Bond Claims, and payment in full in Cash of accrued and unpaid pre-  
9 petition and Post-Petition Interest thereon; (iv) satisfaction in the ordinary course of business of  
10 Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims and  
11 Workers' Compensation Claims; (v) treatment of Letter of Credit Bank Claims in accordance  
12 with a previously reached agreement between the holders of such Claims and PG&E; and  
13 (vi) preservation of Preferred Stock Equity Interests; and (vii) preservation of Common Stock  
14 Equity Interests, subject to dilution.

15 The Commission's Disclosure Statement is submitted pursuant to section 1125 of the  
16 Bankruptcy Code to holders of Claims against and Equity Interests in the Debtor in connection  
17 with (i) the solicitation of acceptances of the Commission's Plan and (ii) the hearing to consider  
18 confirmation of the Commission's Plan (the "Confirmation Hearing") scheduled to begin on  
19 August 2, 2002, at 9:30 a.m., Pacific Time.

20 In addition to the Commission's Disclosure Statement and Plan, PG&E and its Parent  
21 (the "PG&E Proponents") have filed a Plan of Reorganization (as amended, supplemented and  
22 modified, the "PG&E Plan") dated April 19, 2002 and a Disclosure Statement in respect of the  
23 PG&E Plan (as amended, supplemented and modified, the "PG&E Disclosure Statement") dated  
24 April 19, 2002. Pursuant to an Order of the Bankruptcy Court, the solicitation process for the  
25 Commission's Plan and the PG&E Plan will be coordinated, such that both plans will be  
26 presented simultaneously to holders of Claims against and Equity Interests in PG&E. Each will  
27 have a choice of whether to vote in favor of the Commission's Plan and/or the PG&E Plan  
28 (together, the "Competing Plans") and to express a preference for one if voting in favor of both

1 Competing Plans. For the reasons discussed herein, **THE COMMISSION URGES ALL**  
2 **CREDITORS AND EQUITY HOLDERS TO VOTE TO ACCEPT THE COMMISSION’S**  
3 **PLAN (AND TO REJECT THE PG&E PLAN) BECAUSE THE COMMISSION**  
4 **BELIEVES THAT ITS PLAN PROVIDES MAXIMUM VALUE AND MORE**  
5 **CERTAINTY FOR CREDITORS AND EQUITY HOLDERS.** *Creditors and Equity Holders*  
6 *are urged to read both the Commission’s Disclosure Statement and the PG&E Disclosure*  
7 *Statement in their entirety prior to voting on the Commission’s Plan.*

8 Attached as Exhibits to the Commission’s Disclosure Statement are copies of the  
9 following:

- 10 • The Commission’s Plan (Exhibit A), including the exhibits to the Plan as follows:
  - 11 • Interest rates payable on certain Allowed Claims (Exhibit 1);
  - 12 • Schedule of Letter of Credit Issuing Banks (Exhibit 2);
  - 13 • Terms and amount of debt securities to be issued under the Plan (Exhibit 3); and
  - 14 • Form of New Tax Sharing Agreement (Exhibit 4).
- 15 • An Order of the Court (the “Disclosure Statement Order”), approving the  
16 Commission’s Disclosure Statement (Exhibit B);
- 17 • Projected Financial Information (Exhibit C); and
- 18 • Schedule of PG&E’s Currently Outstanding Securities (Exhibit D).

19 In addition, the Commission’s Disclosure Statement refers to the following documents  
20 filed by the PG&E Proponents with the U.S. Securities and Exchange Commission (the “SEC”),  
21 all of which are incorporated herein by reference:

- 22 • Annual Report on Form 10-K of the Parent and the Debtor for the year ended  
December 31, 2001;
- 23 • Joint Proxy Statement on Schedule 14A of the Parent and Debtor dated March 13,  
24 2002; and
- 25 • Various Current Reports on Form 8-K.

26 Such documents and other information are available at a website maintained by the SEC at  
27 <http://www.sec.gov> that contains reports, proxy and information statements, and other  
28 information filed electronically with the SEC.

1           **THE FINANCIAL INFORMATION INCLUDED IN THIS DISCLOSURE**  
2 **STATEMENT HAS BEEN PROVIDED BY THE PG&E PROPONENTS OR IS**  
3 **DERIVED FROM PUBLIC FILINGS AND CERTAIN THIRD PARTY SOURCES. THE**  
4 **COMMISSION MAKES NO REPRESENTATION OR WARRANTY REGARDING THE**  
5 **ACCURACY OF SUCH INFORMATION AND RESERVES THE RIGHT TO REVISE**  
6 **SUCH FINANCIAL INFORMATION AS A RESULT OF THE COMMISSION'S**  
7 **FURTHER REVIEW.**

8           A joint Ballot for acceptance or rejection of the Commission's Plan and/or the PG&E  
9 Plan (and expression of a preference, where applicable) is enclosed with the Commission's  
10 Disclosure Statement submitted to holders of Claims and Equity Interests that are entitled to vote  
11 to accept or reject the Competing Plans.

12           After notice and a final hearing held on May 15, 2002, the Court signed the Disclosure  
13 Statement Order approving the Commission's Disclosure Statement as containing adequate  
14 information of a kind and in sufficient detail to enable hypothetical, reasonable investors typical  
15 of the Debtor's creditors to make an informed judgment about whether to accept or reject the  
16 Commission's Plan. APPROVAL OF THE COMMISSION'S DISCLOSURE STATEMENT  
17 DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE COURT AS TO  
18 THE FAIRNESS OR MERITS OF THE COMMISSION'S PLAN.

19           The Ballot sets forth the deadlines, procedures and instructions for voting to accept or  
20 reject the Commission's Plan and/or PG&E's Plan (and expressing a preference, where  
21 applicable). In addition, detailed voting instructions accompany each Ballot. Before voting on  
22 the Commission's Plan, each holder of a Claim or Equity Interest entitled to vote on the  
23 Commission's Plan should read in their entirety the Commission's Disclosure Statement  
24 (including the documents incorporated herein by reference), the Commission's Plan, the  
25 instructions accompanying the Ballot and the other exhibits attached to this Disclosure  
26 Statement. These documents contain, among other things, important information concerning the  
27 classification of Claims and Equity Interests for voting purposes and the tabulation of votes. No  
28 solicitation of votes on the Commission's Plan may be made except pursuant to this Disclosure

1 Statement and section 1125 of the Bankruptcy Code. In considering how to vote on the  
2 Commission's Plan, a holder of a Claim or Equity Interest should not rely on any information  
3 relating to the Debtor and its business other than that contained, or incorporated by reference, in  
4 this Disclosure Statement, the Commission's Plan, or as otherwise approved by the Bankruptcy  
5 Court.

6 **CAPITALIZED TERMS USED IN THIS DISCLOSURE STATEMENT BUT NOT**  
7 **DEFINED HEREIN SHALL HAVE THE MEANINGS ASCRIBED TO SUCH TERMS IN**  
8 **THE COMMISSION'S PLAN. AN INDEX OF DEFINED TERMS IS ATTACHED TO**  
9 **THIS DISCLOSURE STATEMENT IMMEDIATELY FOLLOWING THE SIGNATURE**  
10 **PAGE.**

11 **A. Chapter 11**

12 Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code.  
13 Under chapter 11, a debtor is authorized to reorganize its business for the benefit of itself, its  
14 creditors and its equity interest holders. In addition to permitting the rehabilitation of a debtor,  
15 another goal of chapter 11 is to promote equality of treatment for similarly situated creditors and  
16 similarly situated equity interest holders with respect to the distribution of a debtor's assets.

17 The commencement of a chapter 11 case creates an estate that is comprised of all of the  
18 legal and equitable interests of the debtor as of the date of filing of the bankruptcy petition. The  
19 Bankruptcy Code provides that the debtor may continue to operate its business and remain in  
20 possession of its property as a "debtor-in-possession."

21 The principal objective of a chapter 11 case is the confirmation and consummation of a  
22 plan. A plan sets forth the means for satisfying claims against and equity interests in a debtor.  
23 Confirmation of a plan by the bankruptcy court binds, among others, the debtor, any issuer of  
24 securities under the plan, any entity acquiring property under the plan, and any creditor or equity  
25 interest holder of the debtor. Subject to certain limited exceptions, the order approving  
26 confirmation of a chapter 11 plan discharges a debtor from any debt that arose prior to the date of  
27 confirmation of the plan and substitutes therefor the obligations specified under the confirmed  
28 plan.

1 Certain holders of allowed claims against and equity interests in a debtor are permitted to  
2 vote to accept or reject the plan. Prior to soliciting acceptances of the proposed plan, however,  
3 section 1125 of the Bankruptcy Code requires approval by the bankruptcy court of a disclosure  
4 statement containing adequate information of a kind, and in sufficient detail, to enable a  
5 hypothetical reasonable investor to make an informed judgment regarding the plan.

6 **B. Summary Of The Plan Of Reorganization**

7 On April 9, 2002, the Commission duly authorized and approved the filing and  
8 prosecution of the Plan by a unanimous 5-0 vote. The Commission developed its Plan to restore  
9 the Debtor's financial viability and to provide for the payment in full of all Allowed Claims at  
10 the earliest possible date. See Section VI.B of this Disclosure Statement for detailed information  
11 regarding the payment of Allowed Claims. In short, the Commission's Plan seeks to provide the  
12 Debtor with the means to repay in full in Cash (with interest) the short term indebtedness  
13 incurred by the Debtor during California's energy crisis. Much of the Debtor's long term  
14 indebtedness would remain outstanding and be satisfied through the reinstatement of such  
15 indebtedness.

16 The Commission's Plan provides the Debtor with a purely economic solution to its  
17 financial difficulties. Under it, the Debtor's business and operations would remain fully  
18 integrated and would continue in all respects to be subject to applicable state and local laws and  
19 regulations. In fact, the Plan does not provide for any changes in the Debtor's regulatory  
20 environment; none are necessary to the Debtor's reorganization. Upon its emergence from  
21 chapter 11, the Debtor will continue to be regulated by the Commission in a manner that will  
22 allow it to recover its reasonable, prudently incurred costs of service through rates and will have  
23 an opportunity to earn a reasonable rate of return. The statutory rate freeze, which ended on  
24 March 31, 2002, no longer stands as an obstacle to the Debtor's cost recovery. Under California  
25 regulation, a regulated utility may also propose other regulatory approaches for the  
26 Commission's consideration.

27 The Commission's Plan relies, in large part, upon the "headroom" in rates enjoyed by  
28 PG&E since at least June 2001. This "headroom," which represents the positive difference

1 between the Debtor's retail electric rates and operating costs, including its wholesale power  
2 procurement costs, has allowed the Debtor to stockpile massive amounts of Cash which may  
3 now be used to repay creditors. In addition, to satisfy the funding gap between the Allowed  
4 Claims to be paid on the Effective Date pursuant to the Plan and the Debtor's projected available  
5 Cash, the Commission's Plan provides for the Reorganized Debtor's issuance and sale, through  
6 one or more public or private offerings, of new debt and equity securities. The Commission  
7 believes that the sale of these securities, when combined with the Debtor's available Cash upon  
8 its emergence from bankruptcy, and the liquidity under its Exit Facility will provide the Debtor  
9 with the means to repay its creditors in full and emerge as a viable entity.<sup>2</sup>

10 The purpose of the Commission's Plan is to enable the Debtor to pay all Allowed Claims  
11 in full and emerge from chapter 11 with a strong and sustainable business so that the Debtor's  
12 customers can once again be assured of a safe and reliable supply of electricity and gas. It is  
13 expected that the Plan will also restore the Debtor to an investment grade credit upon its  
14 emergence from chapter 11, thus providing the necessary assurance that the Reorganized Debtor  
15 will be able to service the debt issued in connection with or reinstated under the Plan. The  
16 Commission is committed to this aspect of the Plan and has included it as a condition precedent  
17 to the Plan's Effective Date. The investment grade condition is waivable only pursuant to a  
18 Final Order of the Bankruptcy Court obtained by motion of the Commission and after notice and  
19 hearing on not less than ten (10) days' notice to the Debtor, the Committee and the United States  
20 Trustee.

21 The Commission believes that its Plan is workable, fair and in the public interest. The  
22 Plan enables the Reorganized Debtor to regain financial viability and to resume full procurement  
23 of power for its retail customers. In doing so, the Plan calls for contributions from each of the  
24 Reorganized Debtor's significant constituencies: the Reorganized Debtor itself, its ratepayers,  
25 and its Parent, which is required under the Plan to contribute to the solution through a dilution in

---

26  
27 <sup>2</sup> There can be no assurance that the Debtor will have sufficient funds on the Effective Date to repay  
28 creditors in full in Cash. See Section X of this Disclosure Statement for a more detailed description of the  
risk factors to be considered in connection with the Commission's Plan.

1 its ownership interest in the Reorganized Debtor. In addition, the Plan requires the Reorganized  
2 Debtor to remain subject to Commission and State regulation.

3 The Commission believes that the Plan will enable the Debtor to reorganize successfully  
4 its business consistent with, and in furtherance of, the objectives of chapter 11, and that  
5 acceptance of the Plan is in the best interests of the Debtor, its creditors and all parties in interest.

6 **C.  Holders Of Claims And Equity Interests Entitled To Vote**

7 The Bankruptcy Code provides that only holders of allowed claims or equity interests in  
8 classes of claims or equity interests that are impaired and are not deemed to have rejected a  
9 proposed chapter 11 plan are entitled to vote to accept or reject such plan. Classes of claims or  
10 equity interests in which the holders are unimpaired under a chapter 11 plan are deemed to have  
11 accepted the plan and are not entitled to vote to accept or reject the plan. Classes of claims or  
12 equity interests in which the holders will receive no recovery under a chapter 11 plan are  
13 impaired, but are deemed to have rejected the plan and also are not entitled to vote to accept or  
14 reject the plan. See Section VI.B of this Disclosure Statement for a detailed description of the  
15 treatment of Claims and Equity Interests under the Commission's Plan.

16 The following classes of Claims and Equity Interests are impaired, will receive  
17 distributions under the Plan and are entitled to vote to accept or reject the Plan: Class 4c –  
18 MBIA Claims, Class 4e – Letter of Credit Bank Claims, Class 5 – General Unsecured Claims,  
19 Class 6 – ISO, PX and Generator Claims, Class 7 – ESP Claims, Class 11 – QUIDS Claims and  
20 Class 14 – Common Stock Equity Interests.

21 The following classes of Claims and Equity Interests are unimpaired and, therefore, are  
22 conclusively presumed to have accepted the Plan: Class 1 – Other Priority Claims, Class 2 –  
23 Other Secured Claims, Class 3 – Secured Claims Relating to First and Refunding Mortgage  
24 Bonds, Class 4a – Mortgage Backed PC Bond Claims, Class 4b – MBIA Insured PC Bond  
25 Claims, Class 4d – Letter of Credit Backed PC Bond Claims, Class 4f – Prior Bond Claims,  
26 Class 4g – Treasury PC Bond Claims, Class 8 – Environmental, Fire Suppression, Pending  
27  
28



1 Litigation, Tort and FERC License Claims, Class 10 – Convenience Claims, Class 12 – Workers’  
2 Compensation Claims and Class 13 – Preferred Stock Equity Interests.<sup>3</sup>

3 The Bankruptcy Code defines “acceptance” of a plan by a class of claims as acceptance  
4 by creditors in that class that hold at least two-thirds ( $\frac{2}{3}$ ) in dollar amount and more than one-half  
5 ( $\frac{1}{2}$ ) in number of the allowed claims in such class casting ballots for acceptance or rejection of  
6 the plan. The Bankruptcy Code defines “acceptance” of a plan by a class of equity interests as  
7 acceptance by holders in such class holding at least two-thirds ( $\frac{2}{3}$ ) in amount of the allowed  
8 interests casting ballots for acceptance or rejection of the plan. See Section VII.C of this  
9 Disclosure Statement for a more detailed description of the requirements for confirmation of the  
10 Commission’s Plan.

11 If one or more classes of Claims or Equity Interests entitled to vote on the Commission’s  
12 Plan votes to reject the Plan, the Commission reserves the right to amend the Commission’s Plan  
13 or to request confirmation of the Commission’s Plan pursuant to section 1129(b) of the  
14 Bankruptcy Code. If at least one class of Claims that is impaired under the Commission’s Plan  
15 has accepted the Commission’s Plan (determined without including acceptance of the Plan by  
16 any insider), section 1129(b) permits confirmation of the Commission’s Plan notwithstanding its  
17 rejection by one or more impaired classes of Claims or Equity Interests. Under that section, the  
18 Commission’s Plan may be confirmed by the Bankruptcy Court if it does not “discriminate  
19 unfairly” and is “fair and equitable” with respect to each nonaccepting class of Claims or Equity  
20 Interests. See Section VII.C.2 of this Disclosure Statement for a more detailed description of the  
21 requirements for confirmation of a plan not accepted by all voting classes.

22  
23  
24  
25 <sup>3</sup> While the Commission believes that Class 13 is unimpaired by the Plan, certain holders of Preferred Stock  
26 Equity Interests may believe that Class 13 is impaired by the Plan. To avoid delaying the voting process,  
27 holders of Preferred Stock Equity Interests are being solicited to vote on the Plan as a precautionary  
28 measure so that the voting results will be available if it is determined by the Bankruptcy Court that such  
Class is impaired. Allowing the holders of Preferred Stock Equity Interests to vote shall be without  
prejudice to the Commission’s contention that this Class is unimpaired and the Commission reserves the  
right to contest any objection to the unimpaired status of this Class.

1 **D. Voting Procedures**

2 **1. General.**

3 If you are entitled to vote to accept or reject the Commission's Plan, a Ballot is enclosed  
4 for the purpose of voting on the Plan. Please vote and return your Ballot in the envelope  
5 provided. If you are the beneficial owner of bonds, notes, debentures or shares of stock of the  
6 Debtor as of the Voting Record Date, your return envelope may be addressed to the brokerage  
7 firm or bank holding your securities, or to such firm's agent (each a "Nominee"). Other holders  
8 of Claims and Equity Interests will receive a return envelope addressed directly to Innisfree  
9 M&A Incorporated (the "Voting Agent").

10 DO NOT RETURN ANY SECURITIES OF PACIFIC GAS AND ELECTRIC  
11 COMPANY WITH YOUR BALLOT.

12 TO BE COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION  
13 OF THE COMMISSION'S PLAN MUST BE RECEIVED NO LATER THAN 5:00 P.M.,  
14 EASTERN TIME ON AUGUST 12, 2002 (THE "VOTING DEADLINE"). ANY EXECUTED  
15 BALLOT THAT FAILS TO INDICATE AN ACCEPTANCE OR REJECTION OF THE  
16 COMMISSION'S PLAN WILL NOT BE COUNTED. IF YOU VOTE IN FAVOR OF BOTH  
17 COMPETING PLANS OR YOU VOTE A CLASS 3 OR 4A CLAIM IN FAVOR OF THE  
18 PG&E PLAN AND ARE DEEMED TO VOTE IN FAVOR OF THE COMMISSION'S PLAN,  
19 THE BALLOT SHOULD ALSO INDICATE YOUR PREFERENCE FOR THE  
20 COMMISSION'S PLAN OR THE PG&E PLAN.

21 BALLOTS WILL NOT BE ACCEPTED BY THE VOTING AGENT BY FACSIMILE  
22 TRANSMISSION OR ANY OTHER ELECTRONIC MEANS.

23 The Voting Agent is:

24 Innisfree M&A Incorporated  
25 501 Madison Avenue, 20<sup>th</sup> Floor  
26 New York, New York 10022  
27 Phone: (877) 750-2689 (Toll free)  
28 Banks and brokers call: (212) 750-5833

29 The Bankruptcy Court has set May 21, 2002 as the Voting Record Date. Accordingly,  
30 only holders of record of Claims and Equity Interests as of the Voting Record Date that

1 otherwise are entitled to vote under the Commission's Plan will receive a Ballot and may vote on  
2 the Commission's Plan.

3 If you are a holder of a Claim or Equity Interest entitled to vote on the Commission's  
4 Plan and did not receive a Ballot, received a damaged Ballot, or lost your Ballot, or if you have  
5 any questions concerning the procedures for voting on the Commission's Plan, please contact the  
6 Voting Agent at (877) 750-2689.

7 Please note the following special instructions for holders of certain Claims and Equity  
8 Interests.

9 **2. Beneficial Owners of Bonds, Notes, Debentures or Shares of Stock.**

10 If you are the beneficial owner of bonds, notes, debentures or shares of stock of the  
11 Debtor as of the Voting Record Date and such bonds, notes, debentures or shares are registered  
12 in your name, please complete the information requested on the Ballot, sign, date and indicate  
13 your vote (and preference, where applicable), and return the Ballot to the Voting Agent at the  
14 address set forth above on or prior to the Voting Deadline.

15 If you are the beneficial owner of bonds, notes, debentures or shares of stock of the  
16 Debtor as of the Voting Record Date, such bonds, notes, debentures or shares are registered in  
17 "street name," AND YOUR BALLOT HAS BEEN PRE-VALIDATED BY YOUR NOMINEE,  
18 please complete the information requested on the Ballot, sign, date and indicate your vote (and  
19 preference, where applicable), and return the Ballot to the Voting Agent at the address set forth  
20 above on or prior to the Voting Deadline.

21 If you are the beneficial owner of bonds, notes, debentures or shares of stock of the  
22 Debtor as of the Voting Record Date, such bonds, notes, debentures or shares are registered in  
23 "street name," AND YOUR BALLOT HAS NOT BEEN PRE-VALIDATED BY YOUR  
24 NOMINEE, sign, date and indicate your vote (and preference, where applicable), and return your  
25 Ballot to your Nominee with enough time for your Nominee to forward the Ballot to the Voting  
26 Agent prior to the Voting Deadline.

1           **3. Nominees of Beneficial Owners of Bonds, Notes, Debentures or Shares of**  
2           **Stock.**

3           If you are the Nominee for a beneficial owner of bonds, notes, debentures or shares of  
4 stock of the Debtor as of the Voting Record Date, please forward a copy of the Commission's  
5 Disclosure Statement and the appropriate Ballot to each beneficial owner. If you do not  
6 prevalidate the Ballots, the Ballots must be collected by you so that you can deliver them to the  
7 Voting Agent on a Master Ballot within two (2) days of the Voting Deadline as detailed in the  
8 Master Ballot.

9           **4. Securities Clearing Agency.**

10          If you are a securities clearing agency, please arrange for your participants to vote on the  
11 Commission's Plan by executing an omnibus proxy in their favor.

12          **E. Confirmation Hearing**

13          Pursuant to section 1128 of the Bankruptcy Code and the Bankruptcy Court's Order, the  
14 Confirmation Hearing to consider confirmation of the Commission's Plan shall begin with an  
15 initial status conference to be held on August 1, 2002, commencing at 9:30 a.m., Pacific Time,  
16 before the Honorable Dennis Montali, United States Bankruptcy Judge, at the United States  
17 Bankruptcy Court for the Northern District of California, 235 Pine Street, San Francisco,  
18 California 94014, or such other location as the Bankruptcy Court directs. The Bankruptcy Court  
19 has directed that objections, if any, to confirmation of the Commission's Plan be served and filed  
20 so that they are received no later than July 17, 2002, at 4:00 p.m., Pacific Time, in the manner  
21 described below in Section VII.B. of this Disclosure Statement. The Confirmation Hearing may  
22 be continued from time to time by the Bankruptcy Court without further notice except for an  
23 announcement of the continuation date made at the Confirmation Hearing.

24          **F. Miscellaneous**

25          THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE  
26 MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN.  
27 THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT CREATE AN  
28 IMPLICATION THAT THE INFORMATION CONTAINED HEREIN HAS NOT CHANGED  
OR WILL NOT CHANGE AFTER THE DATE HEREOF. HOLDERS OF CLAIMS AND

1 EQUITY INTERESTS ENTITLED TO VOTE SHOULD CAREFULLY READ THIS  
2 DISCLOSURE STATEMENT (INCLUDING THE DOCUMENTS INCORPORATED  
3 HEREIN BY REFERENCE) IN ITS ENTIRETY, INCLUDING THE COMMISSION'S PLAN  
4 AND THE OTHER EXHIBITS, PRIOR TO VOTING ON THE COMMISSION'S PLAN.

5 THE INFORMATION IN THIS DISCLOSURE STATEMENT IS BEING PROVIDED  
6 SOLELY FOR PURPOSES OF VOTING TO ACCEPT OR REJECT THE PLAN. NOTHING  
7 IN THIS DISCLOSURE STATEMENT MAY BE USED BY ANY ENTITY FOR ANY  
8 OTHER PURPOSE. THE FACTUAL INFORMATION CONTAINED IN THIS  
9 DISCLOSURE STATEMENT, INCLUDING THE DESCRIPTION OF THE DEBTOR, ITS  
10 BUSINESS AND EVENTS LEADING TO THE COMMENCEMENT OF THE CHAPTER 11  
11 CASE, HAS BEEN OBTAINED FROM VARIOUS DOCUMENTS, AGREEMENTS, AND  
12 OTHER WRITINGS RELATING TO OR PREPARED BY THE DEBTOR. NEITHER THE  
13 COMMISSION NOR ANY OTHER PARTY MAKES ANY REPRESENTATION OR  
14 WARRANTY REGARDING SUCH INFORMATION.

15 FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND EQUITY INTERESTS,  
16 THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE COMMISSION'S  
17 PLAN. IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THIS  
18 DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING. THIS  
19 DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER  
20 THAN TO DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE  
21 COMMISSION'S PLAN, AND NOTHING STATED HEREIN SHALL BE DEEMED  
22 CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE  
23 COMMISSION'S PLAN ON PG&E OR ON HOLDERS OF CLAIMS OR EQUITY  
24 INTERESTS. CERTAIN OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE  
25 STATEMENT (INCLUDING THE DOCUMENTS INCORPORATED HEREIN BY  
26 REFERENCE), TOGETHER WITH THE PROJECTED FINANCIAL INFORMATION  
27 ANNEXED HERETO AS EXHIBIT C AND THE ASSUMPTIONS UNDERLYING SUCH  
28 PROJECTED FINANCIAL INFORMATION, BY NATURE, ARE FORWARD-LOOKING

1 AND SUBJECT TO THE VARIOUS RISKS AND UNCERTAINTIES DESCRIBED IN  
2 SECTION X OF THIS DISCLOSURE STATEMENT (INCLUDING THE DOCUMENTS  
3 INCORPORATED HEREIN BY REFERENCE). ACTUAL OUTCOMES MAY DIFFER  
4 MATERIALLY FROM THOSE EXPRESSED, IMPLIED OR ASSUMED FROM SUCH  
5 FORWARD-LOOKING STATEMENTS. ALL HOLDERS OF CLAIMS AND EQUITY  
6 INTERESTS SHOULD CAREFULLY READ AND CONSIDER FULLY THE RISK  
7 FACTORS SET FORTH IN SECTION X OF THIS DISCLOSURE STATEMENT  
8 (INCLUDING THE DOCUMENTS INCORPORATED HEREIN BY REFERENCE).

9 AS TO CONTESTED MATTERS, EXISTING LITIGATION INVOLVING THE  
10 DEBTOR AND/OR THE COMMISSION, ADVERSARY PROCEEDINGS, AND OTHER  
11 ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT  
12 CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY,  
13 STIPULATION, OR WAIVER. THIS DISCLOSURE STATEMENT SHALL NOT BE  
14 CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES, FINANCIAL  
15 OR OTHER EFFECTS OF THE REORGANIZATION ON HOLDERS OF CLAIMS  
16 AGAINST OR EQUITY INTERESTS IN THE DEBTOR.

17 SUMMARIES OF CERTAIN PROVISIONS OF AGREEMENTS REFERRED TO IN  
18 THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE COMPLETE AND ARE  
19 SUBJECT TO, AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO, THE  
20 FULL TEXT AND TO ALL OF THE PROVISIONS OF THE APPLICABLE AGREEMENT,  
21 INCLUDING THE DEFINITIONS OF TERMS CONTAINED IN SUCH AGREEMENT.

22 **G. The Competing Plan Process**

23 Pursuant to the Procedures Order, holders of Claims and Equity Interests are entitled to  
24 accept or reject one or both of the Competing Plans as set forth in the accompanying  
25 consolidated Ballot and voting instructions. Holders of Claims and Equity Interests are also  
26 entitled to indicate their preference for one of the Competing Plans. Based upon the votes and  
27 preferences cast by holders of Claims and Equity Interests with respect to each Competing Plan,  
28 and upon whether the Competing Plans satisfy the requirements contained in the Bankruptcy

1 Code, the Court will decide whether to confirm one of the Competing Plans. The Commission  
2 believes that the Court will determine the Commission's Plan to be the successful Competing  
3 Plan and that the Commission's Plan will be approved by the Bankruptcy Court.

4 This Disclosure Statement is intended to assist you in making your decision on whether  
5 to vote for or against the Commission's Plan and whether to prefer the Commission's Plan over  
6 the PG&E Plan.

## 7 **II. OVERVIEW OF THE CLAIMS AND EQUITY INTERESTS**

### 8 **A. Summary Claims Table**

9 The following table briefly summarizes the classification and treatment of Claims and  
10 Equity Interests under the Commission's Plan. While approximately \$44 billion of claims have  
11 been filed with the Bankruptcy Court in connection with PG&E's Chapter 11 Case, the  
12 Commission believes, based on discussions with PG&E's management, that the estimated  
13 amounts set forth in the following table represent the most reasonable estimates of Allowed  
14 Claims. See Section VI.B of this Disclosure Statement for a more detailed discussion of the  
15 treatment of Claims and Equity Interests under the Commission's Plan.

16 During its Chapter 11 Case, PG&E has entered into a number of settlements with various  
17 creditors regarding the allowance and treatment of such creditor's Claims under the PG&E Plan.  
18 See Section V of the Disclosure Statement describing PG&E's reorganization case. With the  
19 exception of those settlement provisions that are unique to the allowance and treatment of such  
20 creditors' Claims under the PG&E Plan and are not relevant here, the provisions governing  
21 allowance and treatment of creditor Claims set forth in the creditor settlements are  
22 (i) incorporated into and made part of the Commission's Plan, and (ii) to be assumed and  
23 performed by the Debtor or Reorganized Debtor, as the case may be, under the Commission's  
24 Plan. By way of example, the Commission's Plan incorporates the principal terms of the  
25 following settlements: (i) the Amended Committee Support Agreement (as defined below),  
26 (ii) the Settlement and Support Agreement, (iii) the agreements between the Debtor and various  
27 of the drawn and undrawn Letter of Credit Banks, (iv) the agreements between the Debtor and  
28

1 certain QFs, (v) the agreements between the Debtor and various representatives of mortgage,  
2 pollution control and other bonds issued by the Debtor or insurance relating to such bonds,  
3 (vi) the agreements between the Debtor and various generators, the PX and ISO, (vii) the  
4 Settlement and Stanislaus Commitments stipulation by and between the Debtor, the NCPA and  
5 the City of Palo Alto and (viii) any other such similar agreements, whether or not the terms of  
6 such settlement are specifically referenced in the Commission's Plan. In particular, there is  
7 incorporated into and made part of the Commission's Plan and will be assumed and performed  
8 by the Debtor or the Reorganized Debtor, as the case may be, under the Commission's Plan, the  
9 provisions of the Settlement and Support Agreement, with the exception of the placement fee  
10 provision, "step up" interest rate provision in section 2(a)(ii) thereof, the provisions relating to  
11 the payment of Class 5 Claims in notes and the provisions requiring support for the PG&E Plan.  
12 Specifically, and subject to the foregoing, the Commission's Plan incorporates and makes part of  
13 its Plan the provisions in the Settlement and Support Agreement contained in paragraphs 1,  
14 2(a)(i), 3, 4, 5(a), (c), 12, 13, 14 (only as it relates to the Commission's Plan and its  
15 implementation), 15, 24 and 26 thereof.

16 Under the Commission's Plan, the Debtor will satisfy all Allowed Claims in full through  
17 Cash payments, the reinstatement of certain of PG&E's long-term indebtedness or payment in  
18 the ordinary course of business. Allowed Claims will include the amounts owed with respect to  
19 the period prior to the Petition Date and applicable interest accrued and unpaid during such  
20 period. Except as otherwise described in the Plan, holders of Allowed Claims will also be paid  
21 in Cash accrued and unpaid interest due on such Allowed Claims from the Petition Date through  
22 the Effective Date ("Post-Petition Interest"). Except as otherwise described in the Plan,  
23 including Exhibit 1 thereto, any Post-Petition Interest shall be calculated and paid on the  
24 Allowed Claim at the lowest non-default rate in accordance with the terms specified in the  
25 applicable statute, indenture or instrument governing such Allowed Claim or, if no such  
26 instrument exists, or if the applicable instrument does not specify a non-default rate of interest,  
27 Post-Petition Interest will be calculated and paid on the Allowed Claim at the Federal Judgment  
28 Rate. Except as provided under applicable non-bankruptcy law, Post-Petition Interest will not be



1 paid on the following Allowed Claims: Administrative Expense Claims; Professional  
2 Compensation and Reimbursement Claims; Environmental, Fire Suppression, Pending  
3 Litigation, Tort and FERC License Claims; and Workers' Compensation Claims.

4 Pursuant to an Order entered by the Bankruptcy Court on April 9, 2001 authorizing the  
5 Debtor's interim use of cash collateral (the "Cash Collateral Order"), the Debtor has paid and  
6 will continue to pay Post-Petition Interest to the holders of Allowed Claims in Classes 3 and 4a.<sup>4</sup>  
7 In addition, pursuant to Section 4.2(a) the Commission's Plan, the Debtor will make payments of  
8 Post-Petition Interest that is accrued and is unpaid on and after the Initial Calculation Date  
9 through the last day of the last calendar quarter ending prior to the Effective Date, in arrears, in  
10 quarterly installments (or in the case of such first quarter following the Initial Calculation Date,  
11 for holders of Allowed Claims for which February 28, 2002 is the Initial Calculation Date, the  
12 four-month period from March 1, 2002 to June 30, 2002) as follows: (x) on the first Business  
13 Day of the next calendar quarter to the holders of Allowed Claims in Class 5 for Senior  
14 Indebtedness, the holders of Allowed Southern San Joaquin Power Authority Bond Claims and  
15 the holders of Allowed Claims in Classes 4c, 4f, 4g and 11, and (y) within thirty (30) days  
16 following the end of the calendar quarter, to the remaining holders of Class 5 Claims and the  
17 holders of Allowed Claims in Classes 1, 2, 6, 7 and 10. Any Post-Petition Interest that accrues  
18 during the period commencing on the first day of the calendar quarter in which the Effective  
19 Date occurs and ending on the Effective Date will be paid on the Effective Date.

20 Pursuant to an Order entered by the Bankruptcy Court on April 9, 2002 approving the  
21 Debtor's execution and performance under an agreement with the Letter of Credit Issuing Banks  
22 entitled "Summary of Terms with Respect to Forbearance and Proposed Revised Treatment of  
23 Letter of Credit Bank Claims in the Plan of Reorganization" (the "LC Bank Agreement") the  
24 Debtor will (i) within ten (10) days after the approval of the LC Bank Agreement and thereafter,  
25 make payments to (A) the Letter of Credit Issuing Banks of certain reasonable fees and expenses  
26 of professionals retained by the Letter of Credit Issuing Banks, and (B) the holders of Allowed

---

27 <sup>4</sup> The Cash Collateral Order applies to holders of Allowed Claims in Classes 3a and 3b as classified under  
28 the PG&E Plan. Under the Commission's Plan, Classes 3a and 3b are treated as one Class, Class 3.

1 Claims in Class 4e of the Forbearance, Extension and Letter of Credit Fees and (ii) within ten  
2 (10) days after the Confirmation Date and thereafter, pay to the holders of Allowed Claims in  
3 Class 4e the outstanding reimbursement claims under the applicable Reimbursement Agreements  
4 with respect to Letter of Credit draws for the payment of interest on the related series of Letter of  
5 Credit Backed PC Bonds, together with accrued and unpaid interest due thereon at the non-  
6 default rate to the extent provided in the applicable Reimbursement Agreements.

7 Pursuant to the Settlement Order and Settlement and Support Agreement, the accrual and  
8 payment of Post-Petition Interest shall terminate if (i) the Debtor is determined by a Final Order  
9 of the Bankruptcy Court to be insolvent (on a balance sheet basis) with such interest accrual  
10 termination effective as of the date of insolvency, as determined by the Bankruptcy Court, (ii)  
11 upon conversion of the Chapter 11 Case to a case under chapter 7, provided that there is not a  
12 subsequent determination of the Bankruptcy Court that there are assets of sufficient value to pay  
13 Post-Petition Interest on the applicable Allowed Claim. In circumstances where the accrual and  
14 payment of Post-Petition Interest terminates, any payments of Post-Petition Interest may be  
15 recharacterized and treated as a partial payment of the principal amount of the applicable  
16 Allowed Claims.

17 Except as set forth in Sections 4.2(a) and 4.2(b) of the Plan, described above, and except  
18 to the extent a holder of an Allowed Claim or Equity Interest has otherwise been paid all or a  
19 portion of such holder's Allowed Claim or Equity Interest prior to the Effective Date, each of the  
20 distributions specified in Article IV of the Plan with respect to each Allowed Claim or Equity  
21 Interest shall (i) occur on the later of the Effective Date and the date such Allowed Claim or  
22 Equity Interest becomes an Allowed Claim or Equity Interest, or as soon as practicable  
23 thereafter, and (ii) be in full and complete settlement, satisfaction and discharge of such Allowed  
24 Claim or Equity Interest. See Section VI.E of this Disclosure Statement for more information  
25 regarding the timing of distributions under the Commission's Plan.

26 To the extent allowed by law and any underlying agreement, any unpaid fees and  
27 expenses accrued through the Confirmation Date (except for any unpaid fees and expenses  
28 previously disallowed by the Bankruptcy Court) of the Bond Trustees and the trustees under the

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated<sup>5</sup> Aggregate Amount of Allowed Claims (in millions)</u>
—	Administrative Expense Claims	Paid in full in Cash.	\$ 1,300 <sup>6</sup>
—	Professional Compensation and Reimbursement Claims	Paid in full in Cash.	Unknown
—	Priority Tax Claims	Paid in full in Cash.	\$ 54

<sup>5</sup> In including such estimates in this Disclosure Statement the Commission is not expressing any opinion as to the accuracy of such estimates; nor is the Commission prejudging the appropriateness of any alleged offsets to such Claims, including with respect to the Claims in Classes 6 and 7.

<sup>6</sup> This amount consists of approximately \$1.06 billion in cure amounts related to various agreements with QFs to assume executory contracts and approximately \$294 million in cure amounts relating to assumption of other executory contracts and unexpired leases and other miscellaneous administrative expenses.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<b>Estimated<sup>5</sup> Aggregate Amount of Allowed Claims (in millions)</b>
1	Other Priority Claims	Unimpaired – Paid in full in Cash.	Nominal
2	Other Secured Claims	Unimpaired – At the option of the Debtor the Claims of each holder of an Allowed Other Secured Claim will be either (i) reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code or (ii) paid in full in Cash.	Nominal
3	Secured Claims Relating to First and Refunding Mortgage Bonds	Unimpaired – First and Refunding Mortgage Bonds will remain outstanding and be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code. All accrued and unpaid interest will be paid in full in Cash in accordance with the terms of the respective First and Refunding Mortgage Bond, to and including the last scheduled interest payment date preceding the Effective Date; all unpaid fees and expenses due and owing under the applicable series of First and Refunding Mortgage Bonds will also be paid in Cash.	\$ 2,699 <sup>7</sup>
4a	Mortgage Backed PC Bond Claims	Unimpaired – Each series of Mortgage Backed PC Bonds will remain outstanding and be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code. Each holder of a Mortgage Backed PC Bond will receive Cash in an amount equal to any and all accrued and unpaid interest owed to such holder in respect of such Mortgage Backed PC Bond in accordance with the terms thereof to and including the last scheduled interest payment date preceding the Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee	\$ 345

<sup>7</sup> This amount is net of the approximately \$277 million of First and Refunding Mortgage Bonds held by the Debtor in treasury.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated<sup>5</sup> Aggregate Amount of Allowed Claims (in millions)</u>
4b	MBIA Insured PC Bond Claims	due and owing under the applicable Loan Agreement will also be paid in Cash.	\$ 201
4c	MBIA Claims	Unimpaired – The MBIA Insured PC Bonds will remain outstanding and be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code. Each holder of a MBIA Insured PC Bond will receive Cash in an amount equal to any and all accrued and unpaid interest owed to such holder in respect of such MBIA Insured PC Bond in accordance with the terms thereof to and including the last scheduled interest payment date preceding the Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the Loan Agreement will also be paid in Cash.  Impaired – Each holder of an Allowed MBIA Claim will receive Cash in an amount equal to its pro rata share of the aggregate amount paid by MBIA to the Bond Trustee with respect to the payment of interest on the MBIA Insured PC Bonds during the period from the Petition Date to and including the last scheduled interest payment date preceding the Effective Date, together with its pro rata share of all other amounts due and owing to MBIA under the terms of the MBIA Reimbursement Agreement through the Effective Date, including interest at the non-default rate due on such amounts to the extent provided in the MBIA Reimbursement Agreement.	Nominal
4d	Letter of Credit Backed PC Bond Claims	Unimpaired – The Letter of Credit Backed PC Bonds will remain outstanding and be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code. Each holder of a Letter of Credit Backed PC Bond will receive	\$ 613.55

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<b>Estimated<sup>5</sup> Aggregate Amount of Allowed Claims (in millions)</b>
4e	Letter of Credit Bank Claims	Cash in an amount equal to any and all accrued and unpaid interest owed to such holder in respect of such Letter of Credit Backed PC Bond in accordance with the terms thereof to and including the last scheduled interest payment date preceding the Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the applicable Loan Agreement will also be paid in Cash.	Nominal
		Impaired – Commencing within ten (10) days after the Confirmation Date, to the extent that the Debtor has not reimbursed the applicable Letter of Credit Issuing Bank and the applicable Banks, if any, for drawings made on the related Letter of Credit with respect to the payment of interest on the related series of Letter of Credit Backed PC Bonds to the extent provided in the respective Reimbursement Agreement, each holder of an Allowed Letter of Credit Bank Claim will be paid in Cash in an amount equal to its pro rata share of the aggregate amount paid by the respective Letter of Credit Issuing Bank to the respective Bond Trustee under the terms of the applicable Letter of Credit with respect to the payment of the interest on the Letter of Credit Backed PC Bonds to which such Letter of Credit Bank Claim relates during the period from the Petition Date to and including the last scheduled interest payment date on such Letter of Credit Backed PC Bonds preceding the Effective Date. Each holder of an Allowed Letter of Credit Bank Claim will also be paid Cash in an amount equal to its pro rata share of all other amounts then due and owing to the respective Letter of Credit Issuing Bank and the applicable Banks, if any, under the terms of the respective Reimbursement Agreement	

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated<sup>5</sup> Aggregate Amount of Allowed Claims (in millions)</u>
		<p>(other than for reimbursement of drawings on the respective Letter of Credit) through the Effective Date, including, without limitation, interest at the interest rate due on such amounts to the extent provided in the respective Reimbursement Agreements, and any due and owing applicable Forbearance, Extension and Letter of Credit Fees (as hereinafter defined) through the Effective Date, and the reasonable fees and expenses of unrelated third party professionals retained by the Letter of Credit Issuing Banks, to the extent incurred subsequent to the Petition Date in the Chapter 11 Case, which with respect to each Letter of Credit Issuing Bank for the period prior to December 1, 2001, to the extent payment of such fees and expenses are approved by the Bankruptcy Court prior to the Confirmation Date and such payment is made prior to the Confirmation Date, shall be in an aggregate amount equal to the amount mutually agreed to by the Debtor and each Letter of Credit Issuing Bank. Additionally, on the Confirmation Date, the Debtor will, subject to certain conditions, pay to Deutsche Bank AG New York Branch an agency fee in the amount of \$250,000. The interest rate on each Letter of Credit Bank Claim, interest payment start date and interest payment intervals are set forth on Exhibit <u>1</u> to the Plan.</p>	
		<p>On the Effective Date, one of the following shall occur with respect to each series of Letter of Credit Backed PC Bonds and its respective Letter of Credit, at the option of the Debtor separately for each series of Letter of Credit Backed PC Bonds:</p>	

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<b>Estimated<sup>5</sup> Aggregate Amount of Allowed Claims (in millions)</b>
--------------	-----------------------	--	---

Purchase Option: The respective series of Letter of Credit Backed PC Bonds shall be called for mandatory tender in accordance with the terms of the respective Indenture and shall be purchased by the respective Bond Trustee through a draw on the related Letter of Credit and, at the option of the respective Letter of Credit Issuing Bank, shall either be registered in the name of the respective Letter of Credit Issuing Bank or in the name of the Debtor subject to a first lien security interest in favor of the respective Letter of Credit Issuing Bank to additionally secure the obligations of the Debtor under the related Reimbursement Agreement.

On the Effective Date, to the extent that the Debtor has not reimbursed the applicable Letter of Credit Issuing Bank and the applicable Banks, if any, for drawings made on the related Letter of Credit with respect to the payment of interest on the related series of Letter of Credit Backed PC Bonds to the extent provided in the respective Reimbursement Agreement, each holder of an Allowed Letter of Credit Bank Claim will receive Cash in an amount equal to its pro rata share of the interest portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit.

On the Effective Date, the Letter of Credit Issuing Bank shall transfer the related Letter of Credit Backed PC Bonds in the aggregate principal amount, as set forth on Exhibit 2 to the Plan, to the Debtor free and clear of all liens.

On the Effective Date, each holder of an Allowed Letter of Credit Bank Claim will



1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**Class**

**Claim/Interest**

**Treatment of Allowed Claim/Interest**

**Estimated<sup>5</sup>  
Aggregate  
Amount of  
Allowed Claims  
(in millions)**

receive its pro rata share of Cash in an amount equal to the principal portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit.

- or -

Remarketing Option: The respective series of Letter of Credit Backed PC Bonds shall be called for mandatory tender in accordance with the terms of the respective Indenture and shall be purchased by the respective Bond Trustee through a draw on the related Letter of Credit. The Debtor will then either (i) provide or cause to be provided to the respective Bond Trustee an Alternative “Credit Facility” pursuant to the terms of the respective Indenture in lieu of the existing Letter of Credit or (ii) obtain the consent of the Issuer to remarket the respective series of Letter of Credit Backed PC Bonds without credit enhancement in accordance with the terms of the applicable Indenture. In either event, the respective series of Letter of Credit Backed PC Bonds shall be remarketed, at par, in accordance with the terms of the Indenture and the other PC Bond Documents.

In such event, on the Effective Date, the Letter of Credit Issuing Bank will receive (i) from the Debtor, to the extent that the Debtor has not reimbursed the applicable Letter of Credit Issuing Bank and the applicable Banks, if any, for drawings made on the related Letter of Credit with respect to the payment of interest on the related series of Letter of Credit Backed PC Bonds to the extent provided in the respective Reimbursement Agreement, Cash in an amount equal to the interest

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**Class**

**Claim/Interest**

**Treatment of Allowed Claim/Interest**

**Estimated<sup>5</sup>  
Aggregate  
Amount of  
Allowed Claims  
(in millions)**

portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit, and (ii) from the Bond Trustee, an amount equal to the principal portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit, which amount shall be paid from the remarketing proceeds of the respective Letter of Credit Backed PC Bonds in accordance with the terms of the respective Indenture.

- or -

No Bonds Option: With respect to each Letter of Credit Issuing Bank and the related Banks, if any, in the event that neither the Purchase Option nor the Remarketing Option, as applicable, can be consummated or the respective series of Letter of Credit Backed PC Bonds are redeemed on or prior to the Effective Date as a result of the expiration of the respective Letter of Credit or otherwise, then either: (i) the Class 4e Claim of such Letter of Credit Issuing Bank and the applicable Banks, if any, would be converted to a Class 4f Claim in an amount equal to the amount due by the Debtor under the terms of the respective Reimbursement Agreement as reimbursement for amounts paid by such Letter of Credit Issuing Bank under its respective Letter of Credit to the Bond Trustee for the payment of the principal portion of the redemption price of the related series of Letter of Credit Backed PC Bonds or (ii) if (a) the Letter of Credit Issuing Bank maintains its Letter of Credit outstanding in its initial stated amount through the Effective Date and does not

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**Class**

**Claim/Interest**

**Treatment of Allowed Claim/Interest**

**Estimated<sup>5</sup>  
Aggregate  
Amount of  
Allowed Claims  
(in millions)**

provide the Trustee with notice of default under its Reimbursement Agreement or non-reinstatement of its Letter of Credit or take any other action which would result in the redemption, either in whole or in part, of the outstanding Letter of Credit Backed PC Bonds without the prior written consent of the Debtor, and (b) the Letter of Credit Issuing Bank and each of the related Banks, if any, take all action reasonably required by the Debtor to keep the Letter of Credit Backed PC Bonds outstanding and to facilitate either the Purchase Option or the Remarketing Option, as applicable, including, without limitation, giving direction to the Trustee, providing commercially reasonable indemnification to the Issuer and Trustee, and using their best efforts to consummate the proposed amendment to the terms of the Letter of Credit Backed PC Bonds described in the Plan and to consummate either the Purchase Option or the Remarketing Option as applicable, so as to maintain for the Debtor the benefits of the tax-exempt financing provided by the related series of Letter of Credit Backed PC Bonds, then in the event that the Letter of Credit Backed PC Bonds are redeemed on or prior to the Effective Date for reasons beyond the control of the Letter of Credit Issuing Bank, the Letter of Credit Issuing Bank will receive Cash in an amount equal to the principal portion of the redemption price of the redeemed Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated<sup>5</sup> Aggregate Amount of Allowed Claims (in millions)</u>
4f	Prior Bond Claims	<p>Unimpaired—Each Allowed Prior Bond Claim will be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code. On the Effective Date one of the following shall occur with respect to each Prior Reimbursement Agreement and all of the Allowed Prior Bond Claims arising with respect thereto:</p> <p>Each holder of an Allowed Prior Bond Claim will be paid Cash in an amount equal to (i) the outstanding Reimbursement Obligation, or portion thereof, owing to such holder, (ii) any and all accrued and unpaid interest owing to such holder in respect of such Reimbursement Obligation or applicable portion thereof at a fluctuating rate of interest in accordance with the terms of the applicable Reimbursement Agreement, and (iii) all other amounts due and owing to the respective holder of an Allowed Prior Bond Claim under the terms of the respective Prior Reimbursement Agreement, through the Effective Date.</p> <p>- or -</p> <p>Alternatively, upon the written request of the Debtor, with the prior written consent of the respective Prior Letter of Credit Issuing Bank, the related Banks and each of the other holders of Allowed Prior Bond Claims related thereto, each such holder of an Allowed Prior Bond Claim</p>	\$ 454 <sup>8</sup>

<sup>8</sup> Each Allowed Prior Bond Claim will be paid in the amount necessary to render it unimpaired as set forth herein. The aggregate principal amount of Allowed Prior Bond Claims is currently estimated by PG&E at \$453,550,000 and is subject to increase by the amount of any Letter of Credit Bank Claim that is converted to a Prior Bond Claim in accordance with the “No Bonds Option” as described in treatment of Allowed Letter of Credit Bank Claims.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**Class**

**Claim/Interest**

**Treatment of Allowed Claim/Interest**

**Estimated<sup>5</sup>  
Aggregate  
Amount of  
Allowed Claims  
(in millions)**

will be paid Cash in an amount equal to (i) any and all accrued and unpaid interest owing to such holder in respect of the Reimbursement Obligation or applicable portion thereof owing to such holder at a fluctuating rate of interest in accordance with the terms of the applicable Reimbursement Agreement, and (ii) all other amounts (other than the Reimbursement Obligation or applicable portion thereof) due and owing to the respective holder of an Allowed Prior Bond Claim under the terms of the respective Prior Reimbursement Agreement, through the Effective Date. On the Effective Date, the applicable Prior Letter of Credit Issuing Bank, the related Banks and any other holders of Allowed Prior Bond Claims related thereto shall sell, transfer and assign to the Debtor or its assignee, all of the Prior Letter of Credit Issuing Banks, the applicable Banks, and all of the related Allowed Prior Bond Claim holder's rights, title and interest in the applicable Prior Reimbursement Agreement, including, but not limited to, the right to receive repayment of the related Reimbursement Obligation, together with the right to receive payment of interest thereon as set forth in the applicable Prior Reimbursement Agreement, free and clear of all liens. In such event, on the Effective Date, the Debtor or its assignee shall purchase from the Prior Letter of Credit Issuing Bank, the related Banks and the holders of the related Allowed Prior Bond Claims, all of their rights, title and interest in the applicable Prior Reimbursement Agreement for a purchase price in Cash in an amount equal to the respective Reimbursement Obligation. All of the documents related

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated<sup>5</sup> Aggregate Amount of Allowed Claims (in millions)</u>
		to the transfer and sale of rights under the Prior Reimbursement Agreement shall be in form and content satisfactory to the Debtor, the Prior Letter of Credit Issuing Bank, the related Banks and each of the holders of Allowed Prior Bonds Claims related thereto.	
4g	Treasury PC Bond Claims	Unimpaired—each Allowed Treasury PC Bond Claim shall remain outstanding and be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code. Each holder of a Treasury PC Bond will be paid Cash in an amount equal to any and all accrued and unpaid interest owed to such holder in respect of such Treasury PC Bond in accordance with the terms thereof to and including the last scheduled interest payment date preceding the Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the applicable Loan Agreements will also be paid in Cash.	\$ 81
5	General Unsecured Claims	Impaired – Each holder of an Allowed General Unsecured Claim will be paid in Cash (which will include pre-petition interest only to the extent not previously paid).	\$ 4,565
6	ISO, PX and Generator Claims	Impaired – Each holder of an Allowed ISO, PX and Generator Claim will be paid in Cash (which will include pre-petition interest only to the extent not previously paid).	\$ 1,070 <sup>9</sup>
7	ESP Claims	Impaired – Each holder of an Allowed ESP Claim will be paid in Cash (which	\$ 421 <sup>10</sup>

<sup>9</sup> This amount represents PG&E’s estimate of Allowable ISO, PX and Generator Claims. The aggregate amount of filed ISO, PX and Generator Claims and ESP Claims is materially higher. See Section VI.B.15 of this Disclosure Statement for more detailed information regarding the Claims of generators.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u> shall include pre-petition interest only to the extent not previously paid).	<u>Estimated<sup>5</sup> Aggregate Amount of Allowed Claims (in millions)</u>
8	Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims	Unimpaired – Subject to Section 4.16(b) of the Commission’s Plan, each Allowed Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claim will be satisfied in full in the ordinary course of business at such time and in such manner as the Debtor or Reorganized Debtor, as the case may be, is obligated to satisfy such Allowed Claim under applicable law.	\$ 480 <sup>11</sup>
9	[Intentionally Blank]	[Intentionally Blank]	[Intentionally Blank]
10	Convenience Claims	Unimpaired – Paid in full in Cash.	\$ 60
11	QUIDS Claims	Impaired – Paid in full in Cash.	\$ 300 <sup>12</sup>
12	Workers’ Compensation Claims	Unimpaired – Each Allowed Workers’ Compensation Claim will be satisfied in full in the ordinary course of business at such time and in such manner as the Debtor or Reorganized Debtor, as the case may be, is obligated to satisfy such Allowed Claim under applicable law.	\$ 165
13	Preferred Stock Equity Interests	Unimpaired <sup>13</sup> – Each holder of a Preferred Stock Equity Interest will retain its	\$ 430

<sup>10</sup> This amount represents PG&E’s estimate of the Allowed ESP Claims. The aggregate amount of filed ESP Claims is materially higher. See Section VI.B.16 of the Commission’s Disclosure Statement for more detailed information regarding the ESP Claims.

<sup>11</sup> This amount represents PG&E’s estimate of Allowed Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims. The aggregate amount of filed Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims is materially higher.

<sup>12</sup> This amount excludes \$9 million of QUIDS Claims held by a subsidiary of the Debtor.

<sup>13</sup> While the Commission believes that Class 13 is unimpaired by the Plan, certain holders of Preferred Stock Equity Interests may believe that Class 13 is impaired by the Plan. To avoid delaying the voting process, holders of Preferred Stock Equity Interests are being solicited to vote on the Plan as a precautionary measure so that the voting results will be available if it is determined by the Bankruptcy Court that such

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**Estimated<sup>5</sup>  
Aggregate  
Amount of  
Allowed Claims  
(in millions)**

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	
		Preferred Stock in the Reorganized Debtor and will receive in Cash any dividends and sinking fund payments accrued in respect of such Preferred Stock through the last scheduled payment date prior to the Effective Date.	
14	Common Stock Equity Interests	Impaired – The holders of Common Stock Equity Interests will retain their interests in the Common Stock subject to dilution resulting from the issuance of Equity Interests by the Reorganized Debtor.	N/A

**B. Claims Objection Process**

Any party with a Claim against the Debtor who wishes to vote on the Commission’s Plan and receive distributions thereunder must have an Allowed Claim; provided, however, that the Debtor or the holder of a Disputed Claim may seek an order of the Bankruptcy Court estimating the allowable amount of the Disputed Claim for voting purposes. A creditor whose Claim was scheduled in the Debtor’s Bankruptcy Schedules and whose Claim was not listed as disputed, contingent or unliquidated, is considered to have an Allowed Claim in the scheduled amount (unless such creditor filed a proof of claim, in which case the proof of claim will supersede the scheduled Claim). Further, a Claim which is the subject of a properly filed proof of claim will be deemed Allowed in the amount shown in the proof of claim, unless the Debtor objects to the Claim. PG&E has represented that it is reviewing proofs of claim filed in this Chapter 11 Case, and has begun preparing and filing objections to Claims.

According to PG&E, approximately 13,000 proofs of claim have been filed in an aggregate face amount of approximately \$44 billion. However, based on discussions with

---

Class is impaired. Allowing the holders of Preferred Stock Equity Interests to vote shall be without prejudice to the Commission’s contention that this Class is unimpaired, and the Commission reserves the right to contest any objection to the unimpaired status of this Class.



1 PG&E's management, the Commission believes that accurate estimates of the allowable amount  
2 of all Claims in this Chapter 11 Case are as set forth in the table above.

3 As of March 1, 2002, the Debtor had resolved or filed objections to or requested a  
4 determination of procedures for estimation with respect to most Claims of \$10 million or more to  
5 which it objects. PG&E has estimated that by June 30, 2002, it anticipates resolving or filing  
6 objections to most of the remaining Claims to which it objects (i.e., those for less than  
7 \$10 million); however, PG&E has reserved the right to object to Claims beyond that date. See  
8 Section VI.G of this Disclosure Statement for more information on the treatment of Disputed  
9 Claims. PG&E has represented that at or before the Confirmation Hearing, the PG&E  
10 Proponents intend to propose a means for establishing (a) the aggregate amount of Allowed or  
11 allowable Claims, for purposes of evaluating the feasibility of the Plan and (b) the aggregate  
12 amount necessary to fund an escrow for Disputed Claims.

13 Without limiting the foregoing, the Commission understands, based on information  
14 provided by PG&E, that Claims in the following classes may be overstated and that the Debtor  
15 will file objections to all such Claims: Class 6—ISO, PX and Generator Claims and Class 7—  
16 ESP Claims. Accordingly, all Claims in the foregoing classes will be Disputed Claims under the  
17 Commission's Plan.

### 18 **III. DESCRIPTION AND HISTORY OF THE DEBTOR'S BUSINESS<sup>14</sup>**

#### 19 **A. Overview**

20 The Debtor, Pacific Gas and Electric Company, a California corporation, was  
21 incorporated in 1905. Effective January 1, 1997, the Debtor and its subsidiaries became  
22 subsidiaries of the Parent, a California corporation, whose common stock and related preferred  
23 stock purchase rights are publicly traded (NYSE:PCG). In the holding company reorganization,  
24 the outstanding common stock of the Debtor was converted on a share-for-share basis into  
25 common stock of the Parent. The Debtor's debt securities and preferred stock were unaffected  
26 by the holding company reorganization and, other than those debt securities repaid or preferred

27 <sup>14</sup> In many places, the Commission relies, in large part, on the factual representations contained in the PG&E  
28 Disclosure Statement. The Commission has not independently verified such representations.

1 stock redeemed or repurchased prior to the Petition Date, remain issued and outstanding  
2 securities of the Debtor. The Debtor is an operating public utility engaged principally in the  
3 business of providing electric generation and electric and natural gas distribution and  
4 transmission services throughout most of Northern and Central California. The Debtor's service  
5 territory covers approximately 70,000 square miles with an estimated population of  
6 approximately 13 million and includes all or a portion of 48 of California's 58 counties.

7 **B. Operations**

8 **1. Electric Utility Operations.**

9 The Debtor owns and operates electric generation facilities and an electric transmission  
10 and distribution system in Northern and Central California. As of December 31, 2000, the  
11 Debtor's generation facilities, consisting primarily of hydroelectric and nuclear generating  
12 plants, had an aggregate net operating capacity of 6,649 megawatts ("MW"). During 2000, the  
13 Debtor's own generation and generation purchased by the Debtor under contracts with qualifying  
14 facilities ("QFs") and other power suppliers represented approximately two-thirds ( $\frac{2}{3}$ ) of the  
15 demand of the Debtor's retail electric customers. To transport electricity to load centers, as of  
16 December 31, 2000, the Debtor owned 18,648 miles of interconnected transmission lines of 60  
17 kilovolts ("kV") to 500 kV and transmission substations having a capacity of approximately  
18 7,091 megavolt-amperes ("MVa"). The Debtor distributes electricity to its customers through  
19 116,460 circuit miles of distribution system and distribution substations having a capacity of  
20 approximately 24,894 MVa. For the year ended December 31, 2001, the Debtor sold 46,921,888  
21 MW to its bundled retail customers and transported 3,982,112 MW to direct access customers.  
22 In connection with the California electric industry restructuring, the Debtor relinquished  
23 operational control, but not ownership, of its electric transmission facilities to the California  
24 Independent System Operator (the "ISO"). The ISO controls the operation of the transmission  
25 system, is responsible for assuring the reliability of the electric system and provides open access  
26 transmission service on a nondiscriminatory basis. See Section IV of this Disclosure Statement  
27 for a more detailed discussion of electric industry restructuring.

1           **2.     Gas Utility Operations.**

2           The Debtor owns and operates gas transmission, storage and distribution assets in  
3 California. The Debtor offers gas transmission, storage and distribution services as separate and  
4 distinct services to its customers. Industrial and larger commercial gas (non-core) customers  
5 have the opportunity to select from a menu of services offered by the Debtor and pay only for the  
6 services they use. Access to the gas transmission system is possible for all gas marketers and  
7 shippers, as well as non-core end-users. The Debtor’s residential and smaller commercial gas  
8 (core) customers may select the commodity gas supplier of their choice, but the Debtor continues  
9 to purchase gas as a regulated supplier for those core customers who do not select another  
10 supplier. As of December 31, 2000, the Debtor’s gas system consisted of 6,254 miles of  
11 transmission pipelines, three gas storage facilities and 38,410 miles of gas distribution lines.

12       **C.     Regulation**

13           The Debtor is currently subject to both federal and state regulation. At the federal level,  
14 the FERC regulates, among other things, electric transmission rates and access, interconnections,  
15 operation of the ISO and terms and rates of wholesale electric power sales. The ISO has  
16 responsibility for meeting applicable reliability criteria, planning transmission additions and  
17 assuring the maintenance of adequate reserves and is subject to FERC regulation of tariffs and  
18 conditions of service. In addition, most of the Debtor’s hydroelectric facilities operate pursuant  
19 to licenses issued by the FERC. In some cases, certain facilities covered by FERC licenses are  
20 also subject to United States Forest Service Special Use Permits.

21           The United States Nuclear Regulatory Commission (“NRC”) oversees the licensing,  
22 construction, operation and decommissioning of nuclear facilities, including the Debtor’s Diablo  
23 Canyon Power Plant and the retired Humboldt Bay Power Plant Unit 3. NRC regulations require  
24 extensive monitoring and review of the safety, radiological and certain environmental aspects of  
25 the Debtor’s nuclear facilities.

26           At the State level, the Commission has jurisdiction to set retail rates and conditions of  
27 service for the Debtor’s electric distribution, gas distribution and gas transmission services in  
28 California. The Commission also has jurisdiction over, among other things, the Debtor’s sales of

1 securities, dispositions of utility property, energy procurement on behalf of its electric and gas  
2 retail customers, and certain aspects of the Debtor's siting and operation of its electric and gas  
3 transmission and distribution systems. In an order issued on December 15, 2000 addressing the  
4 dysfunctional California electric market, the FERC ordered the elimination of the Commission-  
5 imposed requirement that all generation owned or controlled by the Debtor be sold for resale into  
6 the California Power Exchange ("PX"). To the extent such power is sold for resale into  
7 wholesale markets, it is under the ratemaking jurisdiction of the FERC, while ratemaking for  
8 retail sales from the Debtor's remaining generation facilities is under the jurisdiction of the  
9 Commission.

10 The California Energy Commission ("CEC") has jurisdiction over the siting and  
11 construction of new thermal electric generating facilities 50 MW and greater in size. The CEC  
12 also sponsors alternative energy research and development projects, promotes energy  
13 conservation programs and maintains a statewide plan of action in case of energy shortages. In  
14 addition, the CEC administers funding for public purpose research and development and  
15 renewable technologies programs.

16 The Debtor's operations and assets are also regulated by a variety of other federal, state  
17 and local agencies.

#### 18 **D. Unions/Workers' Compensation**

##### 19 **1. Unions.**

20 The Debtor maintains collective bargaining agreements with three labor organizations  
21 covering approximately 12,500 of the Debtor's approximately 21,000 employees: (a) the  
22 International Brotherhood of Electrical Workers Local 1245 (the "IBEW"); (b) the Engineers and  
23 Scientists of California Local 20, IFPTE, AFL-CIO (the "ESC"); and (c) the International Union  
24 of Security Officers (the "IUSO"). These agreements will expire on December 31, 2002 for the  
25 IBEW and ESC and on March 31, 2003 for the IUSO.

##### 26 **2. Workers' Compensation Obligations.**

27 Every private employer in California is required to provide workers' compensation  
28 coverage, either by purchasing workers' compensation insurance or, with the permission of the

1 State, self-insuring. To self-insure, employers must meet certain criteria for financial strength  
2 and stability and must provide security to cover their future workers' compensation liabilities in  
3 the event they default on obligations to pay benefits. The security must be in the form of cash,  
4 approved securities, surety bonds or irrevocable letters of credit. The Debtor is self-insured and  
5 the Parent has entered into an Agreement of Assumption and Guarantee of Liabilities on behalf  
6 of the Debtor. The Parent also guarantees the \$401 million of surety bonds the Debtor has in  
7 place to secure its workers' compensation obligations. Nothing in the Commission's Disclosure  
8 Statement or the Plan shall affect (i) the rights of any surety or the Parent with respect to the  
9 Workers' Compensation Indemnity Agreements or (ii) the rights of the parties to object to the  
10 existence of such rights.

11 **E. Litigation**

12 **1. Rate Recovery Litigation.**

13 On November 8, 2000, the Debtor commenced the Rate Recovery Litigation in federal  
14 court in a case styled Pacific Gas and Electric Co. v. Loretta Lynch, et. al., case no. C-00-4128-  
15 SBA (N.D. Cal.). In the Rate Recovery Litigation, the Debtor asked the court for declaratory  
16 and injunctive relief compelling the Commission to permit the Debtor to recover in retail rates  
17 the costs which it incurred or incurs in the federally-regulated wholesale market. The Debtor  
18 argued that its wholesale power costs were incurred pursuant to filed rates and tariffs which the  
19 FERC had authorized and approved and, under the United States Constitution and court  
20 decisions, such costs cannot be disallowed by state regulators, as such actions would be  
21 preempted, unlawfully interfere with interstate commerce and result in an unlawful taking and  
22 confiscation of the Debtor's property.

23 On January 29, 2001, the Rate Recovery Litigation was transferred to the United States  
24 District Court for the Central District of California, where a similar case filed by Southern  
25 California Edison Company ("Edison") was pending. On March 19, 2001, the court heard  
26 argument on the Commission's motion to dismiss the Debtor's amended complaint. On May 2,  
27 2001, the District Court judge dismissed the Debtor's amended complaint, without prejudice to  
28 refiling at a later date, on the ground that the Rate Recovery Litigation was premature since two

1 Commission decisions had not become final under California law. On August 6, 2001, the  
2 Debtor refiled its Rate Recovery Litigation in the United States District Court for the Northern  
3 District of California, based on the Debtor's belief that the Commission decisions referenced in  
4 the court's May 2, 2001 order had become final under California law. The Commission and The  
5 Utility Reform Network ("TURN") have filed motions to dismiss the complaint. On  
6 November 26, 2001, the case was transferred to District Court Judge Walker in the Northern  
7 District of California as a related case with the Debtor's appeal of the Bankruptcy Court's denial  
8 with prejudice of the Debtor's request for injunctive and declaratory relief against an accounting  
9 order adopted by the Commission in March 2001. A case management conference in both  
10 actions was held on March 7, 2002. The Commission's and TURN's motions to dismiss are  
11 pending. Cross motions for summary judgment were filed and are set for hearing on May 24,  
12 2002. The Rate Recovery Litigation would be dismissed with prejudice under the Commission's  
13 Plan. See Section VI.C.3 of the Disclosure Statement regarding Plan Implementation.

## 14 **2. Compressor Station Chromium Litigation.**

15 The Debtor is currently a defendant in the following sixteen (16) civil actions pending in  
16 California courts relating to alleged chromium contamination: (1) Aguayo v. Pacific Gas and  
17 Electric Company, filed March 15, 1995 in Los Angeles County Superior Court, (2) Aguilar v.  
18 Pacific Gas and Electric Company, filed October 4, 1996 in Los Angeles County Superior Court,  
19 (3) Acosta, et al. v. Betz Laboratories, Inc., et al., filed November 27, 1996 in Los Angeles  
20 County Superior Court, (4) Adams v. Pacific Gas and Electric Company and Betz Chemical  
21 Company, filed July 25, 2000 in Los Angeles County Superior Court, (5) Baldonado vs. Pacific  
22 Gas and Electric Company, filed October 25, 2000 in Los Angeles County Superior Court,  
23 (6) Gale v. Pacific Gas and Electric Company, filed January 30, 2001 in Los Angeles County  
24 Superior Court, (7) Monice v. Pacific Gas and Electric Company, filed March 15, 2001 in San  
25 Bernardino County Superior Court, (8) Fordyce v. Pacific Gas and Electric Company, filed  
26 March 16, 2001 in San Bernardino Superior Court, (9) Puckett v. Pacific Gas and Electric  
27 Company, filed March 30, 2001 in Los Angeles County Superior Court, (10) Alderson, et al. v.  
28 PG&E Corporation, Pacific Gas and Electric Company, Betz Chemical Company, et al., filed

1 April 11, 2001 in Los Angeles County Superior Court, (11) Bowers, et al. v. Pacific Gas and  
2 Electric Company, et al., filed April 20, 2001 in Angeles County Superior Court, (12) Boyd, et  
3 al. v. Pacific Gas and Electric Company, et al., filed May 2, 2001 in Los Angeles County  
4 Superior Court, (13) Martinez, et al. v. Pacific Gas and Electric Company, filed June 29, 2001 in  
5 San Bernardino County Superior Court, (14) Kearney v. Pacific Gas and Electric Company, filed  
6 November 15, 2001 in Los Angeles County Superior Court, (15) Miller v. Pacific Gas and  
7 Electric Company, filed November 21, 2001 in Los Angeles County Superior Court, and  
8 (16) Lytle v. Pacific Gas and Electric Company, filed March 22, 2002 in Yolo County Superior  
9 Court. As of April 19, 2002, the Debtor had not yet been served with the complaints in the Gale,  
10 Fordyce, Puckett, Alderson, Bowers, Boyd, Martinez, Kearney or Miller cases.

11 According to the Debtor, there are now approximately 1,280 plaintiffs in the Chromium  
12 Litigation with claims against the Debtor. Each of the complaints alleges personal injuries and  
13 seeks compensatory and punitive damages in an unspecified amount arising out of alleged  
14 exposure to chromium contamination in the vicinity of the Debtor's gas compressor stations  
15 located at Kettleman, Hinkley, and Topock, California. The plaintiffs include current and former  
16 employees of the Debtor and their relatives, residents in the vicinity of the compressor stations,  
17 and persons who visited the gas compressor stations. The plaintiffs also include spouses or  
18 children of these plaintiffs who claim loss of consortium or wrongful death.

19 The discovery referee has set the procedures for selecting trial test plaintiffs and  
20 alternates in the Aguayo, Acosta, and Aguilar cases (the "Aguayo Litigation"). Ten of these trial  
21 test plaintiffs were selected by plaintiffs' counsel, seven plaintiffs were selected by defense  
22 counsel, and one plaintiff and two alternates were selected at random. Although a date for the  
23 first test trial in the Aguayo Litigation was set for July 2, 2001, in Los Angeles County Superior  
24 Court, the Chapter 11 Case automatically stayed all proceedings.

25 Prior to the Petition Date, the Debtor was responding to the complaints in which it had  
26 been served and asserting affirmative defenses. As of the Petition Date, the Debtor had filed  
27 thirteen (13) summary judgment motions challenging the claims of the trial test plaintiffs in the  
28 Aguayo Litigation and completed discovery of plaintiffs' experts. Plaintiffs' discovery of the

1 Debtor's experts was underway. At this stage of the proceedings and the claims objections, there  
2 is substantial uncertainty concerning the claims alleged, and the Debtor has indicated that it is  
3 attempting to gather information concerning the alleged type and duration of exposure, the nature  
4 of injuries alleged by individual plaintiffs, and the additional facts necessary to support its legal  
5 defenses, in order to better evaluate and defend this litigation and the proofs of claim filed.

6 Approximately 1,250 individuals have filed proofs of claim in this Chapter 11 Case  
7 (nearly all by plaintiffs in the Chromium Litigation) asserting that exposure to chromium at or  
8 near the compressor stations has caused personal injuries, wrongful death or related damages.  
9 On November 14, 2001, the Debtor filed its Omnibus Objections to Chromium Claims and its  
10 Motion to Certify and Transfer the Chromium Claims to the Federal District Court. On  
11 January 8, 2002, the Bankruptcy Court issued a Memorandum of Decision denying the Debtor's  
12 Motion to Certify And Transfer the Chromium Claims to Federal District Court, granting the  
13 Claimants' Motion for Abstention and granting the Claimants' Motion for Relief from Stay. The  
14 Memorandum of Decision requires the parties to prepare orders that will lift the automatic stay  
15 and allow the state court lawsuits to proceed for those individuals who timely filed Claims in the  
16 Chapter 11 Case and filed state court lawsuits prior to the Petition Date. Orders granting relief  
17 from the stay have been entered.

18 As set forth in the objections, the Debtor's position is that all of the Chromium Litigation  
19 Claims should be disallowed because they are legally and factually deficient. According to the  
20 Debtor, the claimants cannot establish that exposure to chrome six from the Debtor caused their  
21 alleged injuries and will be unable to present admissible scientific evidence that exposure to  
22 environmental (as opposed to occupational) levels of chrome six can cause the massive list of  
23 ailments they claim.

24 Second, PG&E maintains that the Chromium Litigation Claims are procedurally and  
25 legally deficient. Most, if not all, of the Chromium Litigation Claims are untimely. The first  
26 lawsuits for alleged exposure to chromium from the Debtor were filed in 1994. PG&E has  
27 indicated that it believes that the Chromium Litigation Claims are barred because Claimants  
28 knew, or should have known, of the basis of their Claims well over one year before they filed the



1 pending state court lawsuits or Claims at issue. See McKelvey v. Boeing North American Inc.,  
2 74 Cal. App. 4th 151, 160 (1999). In addition, the Chromium Litigation Claims filed by current  
3 or former employees of the Debtor are further deficient because workers' compensation is the  
4 exclusive remedy to resolve such Claims. Moreover, the grossly inflated damages asserted are  
5 not substantiated by the proofs of claim filed. Finally, the Claims are also inflated because they  
6 incorrectly seek to recover punitive damages against the Debtor for the use of chromium water  
7 treatment products that ceased more than fifteen (15) years ago.

8 For accounting purposes, the Debtor has reserved \$160 million for the Chromium  
9 Litigation. However, for all of the reasons set forth in the objections and summarized above, it is  
10 the Debtor's position that the complaints in the Chromium Litigation are subject to legal and  
11 factual defenses and that the Chromium Litigation Claims are not valid claims. While all  
12 Chromium Litigation Claims are Disputed Claims, the Chromium Litigation Claims are part of  
13 Class 8 under the Plan and accordingly are accorded pass-through treatment under the Plan.

### 14 **3. BFM Contract Seizure Litigation.**

15 On February 5, 2001, the Governor, acting under California's Emergency Services Act,  
16 for the benefit of the State, commandeered certain block forward market ("BFM") contracts to  
17 which the Debtor was a party. PG&E contends that the BFM contracts have significant value  
18 and it has taken legal action to assert claims regarding the commandeering (the "Block Forward  
19 Seizure Litigation"). Accordingly, PG&E filed an administrative claim with the California  
20 Victim Compensation and Government Claims Board (the "Board") based on the Governor's  
21 seizure of the BFM contracts. On October 19, 2001 PG&E, the PX Participants' Committee, two  
22 PX participants, and the State Attorney General appeared before the Board. Following the  
23 hearing, the Board decided to conduct further proceedings on the BFM claims and scheduled a  
24 hearing for February 27, 2002. On December 10, 2001, PG&E (and others) filed writs of  
25 mandate in Sacramento Superior Court seeking to terminate the Board proceeding for lack of  
26 jurisdiction and also requesting a stay of the Board proceedings until such time as the writs could  
27 be heard. In February 2002, the Sacramento Superior Court assigned the writs to the Honorable  
28 James T. Ford to be coordinated with similar litigation already pending before Judge Ford. At a

1 hearing on March 1, 2002, the Court granted PG&E's writ and ordered the Board to issue its  
2 notice of rejection by March 22, 2002. As of this date, Judge Ford has taken no further  
3 dispositive actions in respect of the BFM Litigation.

4 To the extent that the BFM Contract Seizure Litigation is resolved prior to the Effective  
5 Date, the Commission understands that the Debtor and the PX Participants have agreed under the  
6 PG&E Plan that, (a) the Debtor and the PX Participants' Committee will negotiate in good faith  
7 as to the application of any proceeds of the BFM Contract Seizure Litigation and (b) the Debtor,  
8 the PX Participants' Committee and the individual participants reserve all rights against each  
9 other and other parties who assert claims with respect to or interests in the BFM contracts.

#### 10 **IV. EVENTS PRECEDING COMMENCEMENT** 11 **OF THE CHAPTER 11 CASE**

12 While the Commission vigorously disputes a material portion of the PG&E Proponents'  
13 description of the matters contained in Section IV of the PG&E Disclosure Statement, also  
14 captioned "Events Preceding the Commencement of the Chapter 11 Case," they will not be  
15 debated here. In addition, much of what is contained in the PG&E Proponents' recitation is, in  
16 the Commission's view, simply not relevant to the proceedings before the Bankruptcy Court.  
17 Therefore, the Commission will present a brief summary of the material facts that it believes are  
18 relevant to this case.<sup>15</sup>

##### 19 **A. Electric Restructuring Background**

20 In 1996, the State of California initiated the restructuring of its electric power industry.  
21 With the support of PG&E, Edison, and others, the California Legislature enacted Assembly Bill  
22 ("AB") 1890, which provided for the introduction of generation competition into California's  
23 electricity market and imposed a rate freeze on retail electric rates in California.<sup>16</sup> At that time,

24 <sup>15</sup> PG&E disputes a material portion of the Commission's description of such events and facts.

25 <sup>16</sup> Assembly Bill 1890, Stats. 1996, Ch. 854, as codified at Chapter 2.3 of the California Public Utilities Code,  
26 Section 330 *et seq.* ("AB 1890"). PG&E's Parent not only was a supporter of AB 1890, PG&E has claimed  
27 that it helped develop AB 1890. PG&E's Parent stated in its 1997 Annual Report that "our Utility in  
28 conjunction with other California electric utilities, the CPUC, state legislators, consumer advocates, and  
others, developed a transition plan, in the form of state legislation [AB 1890], to position California for the  
new market environment." Among the three principal elements of this transition plan, according to the  
Annual Report, was "an electric rate freeze and rate reduction." *See* 1997 PG&E Corp. Annual Report, pp.  
20-21.

1 the utilities claimed that they were saddled with a large amount of “stranded costs,” which were  
2 so great that the utilities claimed that they had little hope of recovering them in the normal  
3 course in the newly competitive market. These stranded costs were costs associated with utility  
4 generating assets that were expected to be uneconomic in a competitive market (further  
5 subdivided into nuclear and other, non-nuclear facilities); existing power purchase obligations  
6 (consisting of QF contracts and wholesale contracts); and other regulatory obligations (e.g.,  
7 deferred taxes).

8 AB 1890 was designed, in part, to give the utilities an opportunity to recover those  
9 stranded costs. In pertinent part, AB 1890 froze the retail electric rates at the level in effect on  
10 June 10, 1996 until the end of a “transition period,” which was defined as the earlier of  
11 March 31, 2002, or the date that the Commission determines that authorized stranded costs have  
12 been fully recovered. *See* Cal. Pub. Util. Code §§ 367, 368(a). At the end of the transition  
13 period, the utilities were to have received the market value of their generation assets, either  
14 through sale or valuation and inclusion in the rate base for the purposes of cost recovery.

15 The theory behind AB 1890 was that because the frozen rates were higher than the  
16 utilities’ then-current or projected operating costs, the excess gave the utilities a reasonable  
17 opportunity to recover their stranded costs, as well as their other costs (e.g., distribution,  
18 transmission, and purchased power costs) by March 31, 2002. But for electric restructuring,  
19 PG&E’s rates were expected to go down after 1996. Accordingly, PG&E has collected  
20 substantial amounts of money since 1996 as a result of electric restructuring, as embodied in AB  
21 1890, that it would not otherwise have collected. Thus, during the first years of AB 1890  
22 implementation, California ratepayers paid electricity bills that were locked in at higher rates  
23 than the utilities’ costs so that the utilities could accelerate the depreciation of their nuclear  
24 plants and other generation facilities.

25 Beginning in 1996, the Commission issued a number of decisions determining both the  
26 rate mechanisms for recovery of stranded costs, and the revenue requirements for the costs of  
27 providing electric service during the rate freeze period. The Commission established two major  
28 accounting mechanisms to track the costs and revenues associated with stranded cost recovery:

1 the Transition Cost Balancing Account (“TCBA”) and the Transition Revenue Account  
2 (“TRA”).<sup>17</sup>

3 The various operating costs incurred by PG&E and recovered by PG&E in its retail  
4 electric rates include three major components, among others: (1) distribution rates, which are  
5 regulated by the Commission; (2) PG&E’s transmission rates; and (3) wholesale electric costs, of  
6 which items (2) and (3) are regulated by the FERC. PG&E’s FERC-regulated transmission rates  
7 represent a small component of its overall retail rates.

8 AB 1890 also created the Independent System Operator Corporation (the “ISO”), which  
9 is the non-profit entity responsible for operating the transmission systems owned by the  
10 California utilities and conducts various energy and capacity auctions for wholesale electricity  
11 and ancillary services, and the California Power Exchange Corporation (“PX”), which was a  
12 non-profit entity that conducted auctions for wholesale electricity.<sup>18</sup> For AB 1890 to be  
13 implemented, the FERC had to approve certain filings by the ISO, PX and the California utilities  
14 which supported market-based (deregulated) electric wholesale rates.

15 In PG&E’s March 31, 1997 “Phase II Market Power Filing” (pp. 7-9) at the FERC,  
16 PG&E advocated that the FERC authorize the ISO and PX to commence operations with market-  
17 based rates for electric wholesale power even though PG&E would be both a purchaser and a  
18 seller of electric wholesale power. As part of PG&E’s market mitigation proposal, PG&E  
19 explained to FERC that it would not have an incentive to manipulate prices, because under AB

---

20  
21 <sup>17</sup> PG&E’s revenue during the transition period is tracked in the TRA, as are its ongoing costs of providing  
22 utility service (e.g. costs associated with distribution, transmission, and purchasing energy). Any excess in  
23 the TRA after subtracting those costs from those revenues is referred to as “headroom.” Headroom in the  
24 TRA is transferred to the TCBA on a monthly basis and can be applied to the recovery of stranded costs.  
25 Authorized stranded costs are booked into and recovered through the TCBA. In general terms, the TCBA  
26 tracks the accelerated cost recovery of generation assets and other authorized transition costs. Revenues  
27 are recorded in the TCBA on a monthly basis when headroom revenues are credited to the TCBA. In  
28 addition, revenues are recorded when generation assets are sold for greater than net book value. This  
mechanism was also designed so that losses on any sales would be debited to the TCBA as “stranded  
costs.” Costs are tracked on a monthly basis and are recorded in three general subaccounts: current costs,  
accelerated costs, and post-2001 costs. The Commission also established generation memorandum  
accounts that track the costs and revenues of operating PG&E’s retained generation assets in the  
marketplace. The Commission requires the utilities to file monthly TCBA reports.

<sup>18</sup> Cal. Pub. Util. Code §§ 334-356. The PX is no longer in operation.

1 1890's rate freeze, artificially high PX prices would have a negative effect on PG&E's ability to  
2 collect its stranded costs, because it could not pass those costs on to ratepayers if those costs  
3 were above its headroom. In 1997, the FERC authorized the ISO and PX to commence  
4 operations. The FERC summarized PG&E's market mitigation proposal, adopted it, and made  
5 PG&E's market-based rates subject to the AB 1890 rate freeze.<sup>19</sup>

6 In 1997, the Commission issued Resolution E-3514, which adopted accounting rules that  
7 provided that during the rate freeze, debit balances and credit balances would be transferred each  
8 month from the TRA to the TCBA. In 1998, the Commission adopted Resolution E-3527, which  
9 changed these accounting rules. Any headroom in the TRA at the end of each month would still  
10 be transferred to the TCBA and applied toward the recovery of the utilities' transition costs.  
11 However, negative (i.e. debit) balances in the TRA (referred to as "undercollections") were not  
12 transferred into the TCBA. They were to be carried from month to month in the TRA until there  
13 was headroom again.

14 For the two years prior to the summer of 2000, PG&E had sufficient headroom in the  
15 TRA to potentially recover *billions* of dollars of transition costs, due to retail rates that had been  
16 frozen at artificially high levels.

17 **B. Rise in Wholesale Electricity Prices in 2000**

18 In May 2000, prices in California's restructured electric markets rose suddenly to  
19 unprecedented levels. These extraordinary prices persisted for over a year, costing Californians  
20 tens of billions of dollars. In May 2000, average PX prices were 100% higher than prices in May  
21 1999. In June 2000, prices skyrocketed. The total estimated energy and Ancillary Services<sup>20</sup>  
22 costs for June was \$3.6 billion, or \$166/MW. This compares to total energy and Ancillary  
23 Services costs for the entire 1999 calendar year of approximately \$7 billion.<sup>21</sup> The Commission

24 \_\_\_\_\_  
25 <sup>19</sup> Pacific Gas and Electric Company, 81 FERC ¶ 61,122 (1997).

26 <sup>20</sup> "Ancillary Services" are services that must be procured along side generation that are required to guarantee  
27 the reliability of the transmission system. These include: (1) regulation, (2) spinning reserve, (3) non-  
spinning reserve, (4) replacement reserve, (5) voltage support, and (6) black start capability.

28 <sup>21</sup> Extraordinary high prices continued over the summer months. July spot market prices averaged \$118/MW,  
with total costs estimated at \$2.55 billion. August spot market prices averaged \$180/MW, and total costs

1 estimates that generators charged some \$4 billion in excess of competitive baseline prices in the  
2 June-September period. California consumers did not fare better in the fall and winter despite  
3 the arrival of cooler weather and reduced demand.<sup>22</sup> Although prices declined in September and  
4 October, they skyrocketed again after FERC removed the cap on wholesale prices. Costs for  
5 calendar year 2000 totaled \$27 billion, compared to \$7 billion in 1999. Because PG&E was  
6 under a retail rate freeze, this astronomical increase in the cost of wholesale electricity resulted in  
7 PG&E collecting less in rates than its cost of procuring wholesale electricity.<sup>23</sup>

8 **C. Legislative and Commission Action in 2001 Prior to the Chapter 11 Case**

9 In response to the energy crisis, the California Legislature passed new laws in  
10 extraordinary and regular sessions commencing in January 2001.

11 In response to emergency petitions filed by both PG&E and Edison and after expedited  
12 proceedings, on January 4, 2001, the Commission issued D.01-01-018, an interim opinion  
13 regarding the utilities' emergency requests for rate increases, which made preliminary changes to  
14 accounting mechanisms and set forth a process for considering additional changes.<sup>24</sup> In this  
15 interim decision, the Commission authorized a \$.01/kwh surcharge for ninety days, subject to  
16 refund.

---

17 for the month exceeded \$4 billion. September 2000 prices averaged \$126/MW, compared to September  
18 1999 prices averaging \$38/MW. October 2000 prices averaged \$104/MW.

19 <sup>22</sup> Contrary to some expectations, the crisis did not subside with the arrival of cooler weather in the fall.  
20 Although California peak demand drops off by roughly 25%-33% in the cooler months, California-based  
21 generation owners physically withheld their supply from the "markets" by declaring the units out of service  
22 for maintenance or other reasons. Outages persisted at 3-4 times historical rates throughout the late fall and  
23 winter, and into the spring. Driven by the reduced supply, and in part by increases in natural gas prices,  
24 prices continued to rise rather than fall.

25 <sup>23</sup> The claims of suppliers and others that higher prices were attributable simply to higher fuel prices,  
26 increased emissions costs, and tighter supply conditions (requiring the utilization of higher-cost generation  
27 units) are being vigorously challenged by the ISO, the Commission, the State of California and all three  
28 California investor-owned utilities and are being litigated at the FERC. In fact, PG&E and the Commission  
29 have been working together at the FERC to challenge these wholesale electric costs and are seeking  
30 refunds. The FERC has required refunds in its July 25, 2001 order and hearings have been on-going with  
31 additional hearings scheduled for June, 2002. San Diego Gas & Electric Company, 96 FERC ¶ 61,120  
32 (2001). The Chief FERC Administrative Law Judge has estimated refund liability at roughly \$1 billion,  
33 while the State of California has claimed refund liability at approximately \$9 billion.

34 <sup>24</sup> See D.01-01-018, pp. 3, 11-12. As of January 4, 2001, the pending Commission proceedings have utilized  
35 A.00-11-038 as the lead docket number.

1 ABX1 6, approved by the Governor and signed into law on January 18, 2001, prevented  
2 any further sale of utility generation facilities until January 31, 2006 and provided that the  
3 utilities would return to cost-of-service rates at the end of the rate freeze.

4 On February 1, 2001, ABX1 1 was signed into law. ABX1 1 includes California Water  
5 Code Section 80110. This new section describes the California Department of Water Resources'  
6 ("DWR") responsibilities and ability to recover as a revenue requirement the costs of procuring  
7 electric wholesale power. In essence, California, through DWR, has been purchasing electric  
8 wholesale power above that which the utilities can generate themselves, or otherwise have under  
9 contract, for PG&E's retail customers since the beginning of 2001.

10 On March 27, 2001, the Commission issued an order (the "March 27 Order") which  
11 authorized a prospective \$.03/kwh rate increase for both PG&E and Edison, on top of the  
12 \$.01/kwh surcharge authorized on January 4, 2001 in D.01-01-018, making the previously  
13 interim \$.01/kwh surcharge, permanent. Overall, this resulted in approximately a 40% rate  
14 increase.<sup>25</sup>

15 In addition, SBX2 85, approved by the Governor and signed into law on September 28,  
16 2001, adds Section 368.5 to the Public Utilities Code and prohibits the Commission from raising  
17 electrical rates to the pre-10% rate reduction levels solely because the mandatory rate period has  
18 expired.

19 Because of sustained and unprecedented increases in wholesale procurement costs,  
20 PG&E and Edison found it increasingly difficult to service their existing debt obligations,  
21 purchase power and borrow funds. Although the State, the Commission and the Legislature  
22

---

23 <sup>25</sup> This significant rate increase was subject to several conditions. One such condition was the Commission's  
24 requirement that PG&E and Edison adjust their accounting books to comply with Ordering Paragraph 7 of  
25 the March 27 Order (the "Accounting True-Up" or "True-Up"), which requires that the utilities "true-up"  
26 their accounting of their TRA, TCBA, and the Generation Memorandum Accounts, to account more  
27 accurately for their available revenues, and recovery of operating costs (including procurement costs) as  
28 well as transition costs. As the Commission found in the March 27 Order, under the Accounting True-Up,  
all of PG&E's operating costs were recovered, but there were less revenues remaining in the TCBA for  
recovery of PG&E's transition costs. The Accounting True-Up was necessary to remedy certain  
inequitable and unintended results engendered by the old accounting regime, by ensuring that the utilities  
apply real and not "fictitious" profit or "headroom" toward the recovery of their transition costs.

1 worked to address the utilities' immediate financial concerns in the context of a state-wide  
2 energy crisis, PG&E reached its own conclusion.

3 PG&E filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code on  
4 April 6, 2001.

## 5 V. THE REORGANIZATION CASE<sup>26</sup>

### 6 A. Commencement of the Chapter 11 Case

7 PG&E's Chapter 11 Case was commenced on April 6, 2001. PG&E continues to operate  
8 its business and manage its properties as a debtor-in-possession pursuant to sections 1107 and  
9 1108 of the Bankruptcy Code.

### 10 B. Administration of the Chapter 11 Case

#### 11 1. First Day Orders.

12 On the Petition Date, PG&E obtained a series of orders from the Bankruptcy Court  
13 designed to minimize any disruption of its business operations and to facilitate its reorganization.  
14 The Bankruptcy Court entered orders authorizing PG&E, among other things, to pay pre-petition  
15 employee compensation and benefits and to continue to use its bank accounts, cash management  
16 system and corporate investment policy.

#### 17 2. Second Day Orders.

18 On April 9, 2001, PG&E obtained various orders from the Bankruptcy Court designed to  
19 enable PG&E to continue to fulfill post-petition obligations to suppliers and other creditors  
20 without disruption. The Bankruptcy Court granted PG&E the authority to continue to use its  
21 natural gas revenues to secure supplies in an effort to avoid the disruption of service for millions  
22 of natural gas customers. In addition, the Bankruptcy Court authorized the interim use of cash  
23 collateral in which mortgage bondholders have a beneficial interest and scheduled deadlines  
24 relating to a final hearing on the issue.

25  
26  
27 <sup>26</sup> In many places, the Commission relies on the factual representations contained in the PG&E Disclosure  
28 Statement. The Commission has not independently verified such representations.



1           **3.     Third Day Orders.**

2           On April 10, 2001, PG&E obtained various orders from the Bankruptcy Court that  
3 allowed PG&E to satisfy certain obligations to its customers without disruption. The Bankruptcy  
4 Court granted PG&E the authority to issue refunds of security deposits to residential and non-  
5 residential customers as those deposits become eligible for refund through PG&E's existing  
6 deposit refund policies. Based on historical averages, PG&E refunds approximately \$3.5 million  
7 in residential and non-residential customer deposits per month. The Bankruptcy Court also  
8 granted PG&E the authority to issue refunds of mainline extension service deposits to individual  
9 residential customers pursuant to an order issued the following day. These deposits are required  
10 when engineering and construction work is needed to develop bare lots or add new loads to  
11 existing service.

12           **4.     Creditors' Committee.**

13           Section 1102 of the Bankruptcy Code provides that as soon as practicable after the  
14 commencement of a chapter 11 case, the United States Trustee must appoint an official  
15 committee of unsecured creditors. On April 11, 2001, the United States Trustee appointed the  
16 official committee of unsecured creditors (the "Committee"). The Committee is comprised of  
17 Reliant Energy, Inc., Dynegy Power Marketing, Inc., P-E Berkeley, Inc., GWF Power Systems  
18 Company, Inc., Bank of America, N.A., Morgan Guaranty, Merrill Lynch, Pierce, Fenner &  
19 Smith, Incorporated, Davey Tree Expert Co., the City of Palo Alto, California, the State of  
20 Tennessee and Pacific Investment Management Company LLC. Morgan Guaranty and Pacific  
21 Investment Management Company were appointed by the United States Trustee on April 20,  
22 2001 and August 8, 2001, respectively, to replace U.S. Bank and the Bank of New York,  
23 respectively, which were initially appointed to, but later resigned from, the Committee. Reliant  
24 Energy, Inc. was appointed on November 9, 2001 to replace Enron Corp. The Committee has  
25 retained Milbank, Tweed, Hadley & McCloy LLP as its legal counsel, PricewaterhouseCoopers  
26 as its accounting advisor and Saybrook Capital as its financial advisor.

1           **5.       Public Purpose Programs.**

2           On April 24, 2001, PG&E filed a motion with the Bankruptcy Court asking the Court to  
3 confirm that the funds collected by PG&E for its Public Purpose Programs — including energy  
4 efficiency, low income, research and development and renewable generation programs — are not  
5 part of the bankruptcy estate and can be used to honor pre-petition obligations incurred in  
6 connection with the programs. At the time of the motion, PG&E owed approximately  
7 \$37 million to customers who requested rebates and contractors who performed work in homes  
8 and businesses to make them more energy efficient. PG&E purports to operate the most  
9 extensive energy efficiency programs in the nation and argued that the continued vitality of the  
10 programs is critical to reduce the State’s capacity constraints. The Bankruptcy Court approved  
11 PG&E’s motion on May 16, 2001.

12           **6.       Assumption of Hydroelectric Power Purchases.**

13           On April 25, 2001, PG&E filed a motion with the Bankruptcy Court asking the court to  
14 authorize it to pay past-due amounts for hydroelectric power purchased under contracts with  
15 several California irrigation districts and water agencies. Prior to the Petition Date, PG&E had  
16 made all regular payments due to these irrigation districts and water agencies. As a result of  
17 bankruptcy law prohibitions against post-petition payment for services rendered but not yet paid  
18 for prior to the Petition Date, however, PG&E was unable to make \$1.6 million in payments.  
19 The Bankruptcy Court approved PG&E’s motion on May 25, 2001.

20           **7.       Pre-Petition Property Taxes.**

21           On April 26, 2001, PG&E filed a motion with the Bankruptcy Court asking the court to  
22 authorize payment of the unpaid pre-petition portion of its property taxes. PG&E pays property  
23 taxes in 49 counties. PG&E filed the motion to allow it to immediately pay up to \$41.2 million,  
24 its portion of property taxes accrued prior to the Petition Date. PG&E’s total property tax  
25 accrued through March 31, 2001 was \$78.5 million, and it paid the post-petition portion of  
26 \$37.3 million on or before April 10, 2001. The Court agreed with several counties that objected  
27 to the Debtor’s motion on the grounds that it failed to provide for payment in full of the Debtor’s  
28 tax obligation, and approved PG&E’s motion with some modifications on May 16, 2001. The

1 Order approving the motion reflected a settlement between the counties and the Debtor providing  
2 for the Debtor's payment of over \$4 million in penalties and attorneys' fees to the counties, in  
3 addition to the full amount of property taxes owing.

4 **8. Request for Preliminary Injunction against the ISO.**

5 On May 3, 2001, PG&E filed an adversary proceeding and a motion for a preliminary  
6 injunction in the Bankruptcy Court, asking the court to direct the ISO to comply with bankruptcy  
7 law, its tariff, and a recent FERC ruling by ceasing to purchase wholesale power on behalf of  
8 PG&E or billing PG&E for such purchases. The ISO had sent PG&E a bill for spot market  
9 purchases over a two-month period that totaled nearly \$1 billion. PG&E's adversary action,  
10 which included a request for a preliminary injunction, asked the court to enjoin the ISO from  
11 requiring PG&E to pay costs the ISO has incurred and continues to incur to purchase wholesale  
12 power on its behalf, unless PG&E can fully recover these costs. The motion was premised upon  
13 a FERC order specifying that since PG&E failed to satisfy the credit requirements under the ISO  
14 tariffs, it was not a creditworthy buyer and, consequently, the ISO lacked authority to make real  
15 time purchases on its behalf.

16 On June 26, 2001, the Bankruptcy Court issued an injunction prohibiting the ISO from  
17 violating the FERC orders discussed above. The Bankruptcy Court noted that the FERC orders  
18 permit the ISO to schedule transactions that involve either a creditworthy buyer or a creditworthy  
19 counterparty, but recognized that there are unresolved issues regarding how to ensure these  
20 requirements for real-time transactions when the ISO has ordered power sellers to respond to the  
21 ISO's emergency dispatch orders. The Bankruptcy Court noted that it would consider the  
22 foregoing and other appropriate factors if and when it is asked to take action for any violation of  
23 its order or is asked to deny a claim arising out of any purchases arranged by the ISO.

24 **9. Denial of Ratepayers' Committee.**

25 On May 4, 2001, the United States Trustee appointed a Ratepayers' Committee. On  
26 May 9, 2001, PG&E filed a motion with the Bankruptcy Court asking the court to vacate the  
27 United States Trustee's appointment of the Ratepayers' Committee. The filing indicated that the  
28 creation of a Ratepayers' Committee exceeded the authority of the United States Trustee because

1 it was inconsistent with express provisions of the Bankruptcy Code. On May 18, 2001, the  
2 Bankruptcy Court granted PG&E's motion and vacated the Ratepayers' Committee. On July 10,  
3 2001, the Bankruptcy Court denied a motion by the United States Trustee and the putative  
4 Ratepayers' Committee for reconsideration of its order vacating the Ratepayers' Committee.

5 **10. Authorization of Employee Related Matters.**

6 On May 25, 2001, PG&E filed a motion requesting authorization with respect to a variety  
7 of employee-related matters, including: making pre-petition payments for severance and  
8 transition to employees who worked on now-divested power plants; making pre-petition  
9 payments to administrative, technical and lower-level management employees (including  
10 hundreds of first-line supervisors) under various existing incentive and recognition programs;  
11 implementing a retention program designed to retain a small number of essential employees who  
12 are necessary to the reorganization process and the continuation of the operation and  
13 maintenance of the gas and electric transmission and distribution facilities and generation  
14 facilities; and continuing its existing severance program. The Bankruptcy Court approved  
15 PG&E's motion regarding each employee-related matter, other than the management retention  
16 program, on June 28, 2001, and approved PG&E's motion regarding the management retention  
17 program on July 13, 2001.

18 **11. The Accounting True-Up.**

19 The March 27 Order, among other things, required PG&E to restate all its books and  
20 accounts retroactively to January 1, 1998, by transferring on a monthly basis the balance in  
21 PG&E's TRA to PG&E's TCBA. Contrary to the views expressed in the PG&E Disclosure  
22 Statement, the Accounting True-Up does not have the effect of treating any negative balance, or  
23 under-collection, in the TRA as an additional category of transition costs, through the transfer of  
24 those negative balances to the TCBA. The TCBA is merely an accounting device to track the  
25 *recovery* of transition costs; it does not represent the *amount* of transition costs. The True-Up  
26 simply corrects an anomaly in the way that the utilities, including PG&E, had accounted for the  
27 recovery of transition costs in the TCBA, and allows the Commission to consider the net effect  
28 of recovery of both operating costs (including procurement costs) and transition costs for the

1 entire period of the rate freeze. The amount of transition costs recorded in the TCBA are not  
2 affected by transferring any negative balances in the TRA into the TCBA. See Section IV.C. of  
3 this Disclosure Statement for a more detailed discussion of the March 27 Order.

4 On April 9, 2001, PG&E asked the Bankruptcy Court to stay the Commission's  
5 implementation and enforcement of the Accounting True-Up. On June 1, 2001, the Bankruptcy  
6 Court denied PG&E's request for a stay and an injunction on the transition period accounting  
7 proposal. PG&E appealed the Bankruptcy Court's decision to the United States District Court  
8 for the Northern District of California; PG&E's appeal is pending. PG&E's application for  
9 rehearing of the Accounting True-Up was denied by the Commission on January 2, 2002. On  
10 February 4, 2002, PG&E filed a Petition for Writ of Review of this Decision in the Court of  
11 Appeals of California, First Appellate District, Case No. A097671. That Petition is currently  
12 pending before the Court of Appeal.

### 13 **12. PG&E's Extension of the Exclusivity Period.**

14 The Bankruptcy Code allows a debtor the exclusive right for 120 days to prepare and file  
15 a plan with the Bankruptcy Court. If a plan is filed within the 120-day exclusivity period, the  
16 exclusivity period is automatically extended to 180 days to allow a debtor to confirm its plan. A  
17 debtor's exclusivity period in which to file the plan may be extended or reduced by the court.  
18 After the exclusivity period has expired, a creditor, a committee or other party in interest may  
19 file a plan. On July 3, 2001, PG&E filed a motion with the Bankruptcy Court to extend its  
20 exclusivity period until December 6, 2001. Under the original timeline, the exclusivity period  
21 would have expired on August 6, 2001. On July 20, 2001, the Bankruptcy Court approved  
22 PG&E's motion and extended the exclusivity period for filing a plan to December 6, 2001 (and,  
23 assuming a plan were filed by such date, extending the time to confirm such plan until  
24 February 4, 2002).

### 25 **13. Further Extension of Exclusivity Denied.**

26 On December 19, 2001, PG&E filed its second motion to extend exclusivity until  
27 June 30, 2002. On January 8, 2002 the Commission, among others, objected to PG&E's request  
28 for a further extension (the "Exclusivity Objection"). In its Exclusivity Objection, the

1 Commission argued, among other things, that PG&E failed to demonstrate the requisite “cause”  
2 required for an extension of exclusivity and sought approval to file an alternate plan of  
3 reorganization.

4 On January 16, 2002, the Bankruptcy Court conducted a hearing on PG&E’s motion to  
5 further extend exclusivity. At the conclusion of the hearing, the Bankruptcy Court (a) granted  
6 PG&E’s motion except with respect to the Commission and (b) ordered the Commission to file a  
7 term sheet summarizing the critical elements of its proposed alternative plan. The Commission  
8 filed its term sheet on February 13, 2002. After a further hearing on the Commission’s  
9 Exclusivity Objection and the term sheet, the Bankruptcy Court, on February 27, 2002, denied  
10 PG&E’s motion to extend exclusivity and authorized the Commission to file its Plan and  
11 Disclosure Statement no later than April 15, 2002.

12 **14. Omnibus Motions.**

13 On June 6, 2001, PG&E, with the approval of the Committee, filed a series of “omnibus”  
14 motions with the Bankruptcy Court requesting authorization for PG&E to enter into a range of  
15 transactions in the course of its business within certain specified parameters and without further  
16 motion or court approval. These motions included requests for authorization for PG&E to settle  
17 post-petition third party claims, to make capital expenditures, and to continue its environmental  
18 programs, in each case subject to specified per transaction or aggregate dollar limitations. The  
19 Bankruptcy Court approved all of the omnibus motions at the hearing on the motions held  
20 June 26, 2001, and subsequently issued its orders granting the motions.

21 **15. Extension of Time for Assuming or Rejecting Real Property Leases.**

22 Under the Bankruptcy Code, PG&E is allowed sixty (60) days from the Petition Date to  
23 assume, assume and assign, or reject most types of real property leases, unless the Bankruptcy  
24 Court for cause shown extends such sixty (60) day period. Pursuant to two separate motions  
25 filed in June 2001, PG&E sought and obtained an extension of time until October 5, 2001  
26 (without prejudice to PG&E’s right to seek further extensions) to take action to assume, assume  
27 and assign, or reject substantially all of its real property leases.

1           **16. QF Agreements.**

2           As of the Petition Date, PG&E was party to approximately three hundred thirty (330)  
3 power purchase agreements with various QFs. Almost immediately after the Petition Date,  
4 several of the QFs filed motions requesting various forms of relief, including: (a) relief from the  
5 automatic stay to permit the QFs to “suspend” deliveries of energy to PG&E and sell into the  
6 market, pending PG&E’s assumption or rejection of the QF power purchase agreements, (b) an  
7 order requiring PG&E to decide immediately whether to assume or reject the power purchase  
8 agreements, (c) an order requiring PG&E to pay “market rates” for energy delivered under the  
9 power purchase agreements, rather than at the contract rate, and (d) an order requiring PG&E to  
10 “pre-pay” for deliveries under the power purchase agreements. In all, approximately forty (40)  
11 QFs ultimately filed motions requesting some or all of the relief described above. PG&E  
12 opposed these motions on a number of grounds.

13           On July 6, 2001, in order to resolve a substantial dispute with Calpine Corporation-  
14 related QFs (the “Calpine QFs”) regarding the rights and obligations of the parties under the  
15 power purchase agreements between PG&E and Calpine QFs, PG&E entered into a stipulation  
16 and agreement with the Calpine QFs providing that PG&E would (a) assume its power purchase  
17 agreements with the Calpine QFs, (b) stipulate to the amount of pre-petition defaults, subject to  
18 the outcome of certain proceedings before the Commission, and (c) cure such pre-petition  
19 defaults on the PG&E Plan’s proposed effective date. The stipulation and agreement provided  
20 that the Calpine QFs would waive claims to receive the “market rate” for energy delivered and  
21 for additional “pecuniary losses,” and that the power purchase agreements would be amended to  
22 take advantage of a price modification permitted under a recent Commission decision. On  
23 July 12, 2001, the Bankruptcy Court approved the stipulation and agreement with the Calpine  
24 QFs.

25           In the following two-month period, this transaction served as a prototype for PG&E’s  
26 resolution of similar disputes (and the Bankruptcy Court’s approval thereof) with over two  
27 hundred (200) other QFs, representing over \$800 million of pre-petition obligations and  
28 approximately 16,000 GWh of generation. Other than PG&E’s agreement to commence making

1 relatively small cure payments on July 15, 2003 (approximately two (2) years after assumption  
2 was approved by the Bankruptcy Court), the settlements were on the same essential terms as the  
3 Calpine QF settlement. According to PG&E, the effect of these settlements is to provide  
4 certainty to PG&E and its customers for the delivery of energy on favorable terms, as well as the  
5 favorable resolution of numerous contested matters.

6 The assumption agreements left the issue of the interest rate to be applied to the  
7 pre-petition payables to be resolved either through additional negotiation by PG&E and the QFs  
8 or, if no agreement could be reached, through PG&E's plan confirmation process. PG&E has  
9 recently concluded negotiations with several of its larger QFs, including the Calpine QFs and the  
10 GWF Group, resolving those issues. The agreements are set forth in supplemental agreements  
11 and modify the assumption agreements by:

- 12 • setting the interest rate for pre-petition payables at five percent (5%) per annum;
- 13 • providing for a "catch up payment" of all accrued and unpaid interest (calculated  
14 from the date of default through December 31, 2001) to be paid on December 31,  
2001; and
- 15 • providing for an accelerated payment of the principal amount of the pre-petition  
16 payables (and interest thereon) in twelve equal monthly payments of principal (and  
17 interest thereon) commencing on December 31, 2001, and continuing through  
18 November 30, 2002, or, in the event that the PG&E Plan's proposed effective date  
occurs before the last monthly payment is made, the remaining unpaid principal and  
accrued but unpaid interest thereon, shall be paid in full the PG&E Plan's proposed  
effective date.

19 The Bankruptcy Court granted PG&E's Motion to Approve Compromise of Controversy  
20 and approved the supplemental agreements with the Calpine QFs and the GWF Group, as well as  
21 numerous other QFs, at a hearing on December 21, 2001. In addition, the Bankruptcy Court  
22 established a procedure by which PG&E can seek approval of similar supplemental agreements  
23 by stipulation instead of notice and motion. As of the date of the PG&E Proponents' most recent  
24 disclosure statement, PG&E has entered into supplemental agreements with approximately one  
25 hundred (100) of its QFs with Administrative Expense Claims of approximately \$916.5 million  
26 in the aggregate. Pursuant to the terms of the supplemental agreements, PG&E is paying these  
27 claims in equal monthly installments over the course of the calendar year 2002.



1           **17.     PG&E’s Support Agreement with the Committee and Modifications Thereto.**

2           Prior to the filing of the PG&E Plan, the Committee participated with the PG&E  
3 Proponents in the negotiation and development of their plan. On September 19, 2001, PG&E,  
4 the Parent and the Committee entered into a Support Agreement (the “Committee Support  
5 Agreement”) pursuant to which the parties agreed to take all commercially reasonable actions  
6 and use their respective best efforts to achieve timely confirmation and consummation of a plan  
7 consistent with the term sheet attached as an exhibit to the Committee Support Agreement.  
8 Under the terms of the Committee Support Agreement, the Committee agreed to: (a) fully  
9 support the PG&E Plan, (b) advocate in all material respects the plan and its attendant  
10 restructuring transactions, (c) recommend that all parties entitled to vote do so in favor of the  
11 PG&E Plan, (d) advocate and support all approvals and required orders concerning such plan and  
12 the restructuring transactions, (e) support the extension of PG&E’s exclusivity under  
13 section 1121 of the Bankruptcy Code, and (f) respond affirmatively to all inquiries concerning  
14 the PG&E Plan and the restructuring transactions, all subject to the occurrence of a “support  
15 termination event.”

16           As consideration for the Committee’s support of the PG&E Plan, the PG&E Proponents  
17 agreed to include certain provisions beneficial to unsecured creditors in the plan, including  
18 payment of pre-petition interest and Post-Petition Interest. The PG&E Proponents have also  
19 made a commitment to take commercially reasonable actions prior to the proposed effective date  
20 of the PG&E Plan to ensure that the debt securities issued or sold under PG&E Plan will trade at  
21 or above par upon issuance, grant reasonable observation rights of the Committee in the process  
22 of issuing the debt securities and payment of placement fees to each creditor in PG&E Plan  
23 Classes 5, 6 and 7 (based on the principal amount of notes or other non-cash consideration to be  
24 paid to the holders of claims in all classes). According to PG&E, the placement fees represent an  
25 expense PG&E would incur if it were selling its debt securities outside of bankruptcy.

26           In view of the Commission’s Plan, and in recognition of the Committee’s fiduciary  
27 duties, the Committee requested that the Debtor and the Parent amend and restate the Committee  
28 Support Agreement. Accordingly, the parties have entered into that certain Amended and

1 Restated Support Agreement (the “Amended Committee Support Agreement”) dated as of May  
2 1, 2002.

3 The Amended Committee Support Agreement continues to include certain provisions  
4 beneficial to unsecured creditors. The new agreement contains significant changes, however, to  
5 the PG&E Plan support provisions contained in the original Committee Support Agreement.  
6 Specifically, pursuant to the Amended Committee Support Agreement, so long as no Amended  
7 Support Termination Event (as described below) has occurred, the Committee agrees to continue  
8 to support confirmation of the PG&E Plan and recommend that all parties-in-interest entitled to  
9 vote do so in favor of the PG&E Plan, but on a *non-exclusive basis*. Significantly, under the  
10 Amended Committee Support Agreement nothing precludes or limits the Committee from  
11 supporting the Commission’s Plan, including recommending that creditors vote in favor of and  
12 prefer the Commission’s Plan.

13 The Committee’s obligations under the Amended Committee Support Agreement are  
14 conditioned upon the satisfaction or waiver of the following conditions: (a) that the PG&E  
15 Proponents obtain indicative ratings of investment grade from S&P and Moody’s for all debt  
16 securities to be issued or sold under the PG&E Plan by November 30, 2002, (b) that the PG&E  
17 Proponents receive all necessary regulatory approvals for the PG&E Plan by December 31, 2002,  
18 (c) that the PG&E Proponents resolve any tax issues raised by the PG&E Plan in a manner  
19 reasonably satisfactory to the Committee by December 31, 2002, (d) that the Bankruptcy Court  
20 enter a confirmation order on the PG&E Plan by January 30, 2003, and (e) that the PG&E Plan  
21 must become effective by March 31, 2003.

22 As stated above, the obligations of the parties under the Amended Committee Support  
23 Agreement will terminate upon the occurrence of an “Amended Support Termination Event,” if  
24 not otherwise waived by the applicable party, which means any of the following: (a) a breach of  
25 the Amended Committee Support Agreement by one or more of the parties thereto, including,  
26 but not limited to, the failure to either satisfy or obtain the waiver of any condition set forth  
27 therein, or (b) a material adverse change, based on events occurring subsequent to the effective  
28 date of the Amended Committee Support Agreement, (i) in PG&E’s prospects, business, assets,

1 operations, liabilities or financial performance, (ii) in the prospects for timely completion of  
2 PG&E's reorganization as contemplated in the PG&E Plan, (iii) in the prospects for the sale at  
3 par of all debt securities issued or sold under the PG&E Plan, (iv) in the Case, or (v) such that the  
4 Committee, in good faith, as a fiduciary for unsecured creditors and based upon the opinion of its  
5 counsel, determines that termination of the Amended Committee Support Agreement is  
6 necessary or appropriate and delivers notice thereof to the PG&E Proponents (any such  
7 termination under subpart (v) only will become effective ten (10) days after notice to the PG&E  
8 Proponents).

9 **18. Sempra Settlement Agreement.**

10 Prior to the Petition Date, PG&E and Sempra Energy Trading and its affiliates  
11 (collectively, "Sempra") were parties to a number of agreements relating to the purchase and sale  
12 and transmission of natural gas (collectively, the "Sempra Gas Agreements"). Beginning in  
13 January 2001, disputes arose between PG&E and Sempra regarding their respective performance  
14 under the Sempra Gas Agreements and electricity supplied by Sempra into the ISO and PX  
15 markets.

16 On January 18, 2001, Sempra purported to terminate all of the Sempra Gas Agreements  
17 with PG&E and net out the outstanding amounts thereunder. Sempra purported to exercise its  
18 rights under certain of the Sempra Gas Agreements to setoff gas volumes (valued in dollars) it  
19 owed thereunder against amounts that Sempra claimed PG&E owed it for electricity supplied to  
20 the ISO and PX. As a result, Sempra claimed that it owed nothing to PG&E under the Sempra  
21 Gas Agreements and that PG&E owed Sempra certain amounts. As a further result of its  
22 claimed setoff, Sempra claimed it had no obligation to return any net amounts of gas owing to  
23 PG&E because it claimed that all transactions set forth in the outstanding exhibits to the Sempra  
24 Gas Agreements had also been terminated and setoff effective January 18, 2001.

25 On November 5, 2001, PG&E entered into a settlement agreement with Sempra which,  
26 subject to Bankruptcy Court approval, settles all the outstanding disputes with Sempra under the  
27 Sempra Gas Agreements and certain Orders of the Department of Energy, and reserves  
28 resolution of certain disputes regarding electricity services between Sempra and PG&E. The

1 settlement agreement provides, among other things, that (a) all disputes between Sempra and  
2 PG&E in relation to the Sempra Gas Agreements and orders of the Department of Energy are  
3 resolved with a one-time payment by Sempra to PG&E of \$48.5 million payable upon the  
4 effective date of the settlement agreement, (b) Sempra will deliver certain quantities of natural  
5 gas to PG&E, waiving any claim that PG&E is required to pay for the post-June 1, 2001 gas in  
6 any amount, (c) subject to Bankruptcy Court approval, Sempra and PG&E will enter into a new  
7 “Master Gas Agreement” providing for Sempra to deliver natural gas to PG&E’s Core  
8 Procurement division on substantially similar terms as those set forth in the pre-petition  
9 agreement, and (d) Sempra and PG&E will defer resolution of Sempra’s claims for electricity  
10 supplied to the ISO and PX, which Sempra claims was supplied to the ISO and PX as agents for  
11 PG&E.

12 The Bankruptcy Court approved the motion for approval of the settlement agreement at a  
13 hearing held on December 19, 2001.

14 **19. Claims Management Motions.**

15 On December 7, 2001, PG&E filed two motions to expedite the process of settling and  
16 objecting to Claims. In the first motion, PG&E sought authority to settle certain Claims without  
17 the burden and expense of seeking review by the Committee and other parties in interest, and  
18 without Bankruptcy Court approval of each proposed settlement. Approximately 13,000 proofs  
19 of claim have been filed to date in PG&E’s Chapter 11 Case, the vast majority of which were  
20 filed in an amount less than \$100,000. Accordingly, PG&E sought the authority to settle any  
21 Claim (a) where the proposed Allowed amount of such Claim is \$100,000 or less and (b) where  
22 the proposed Allowed amount exceeds \$100,000 but is no more than \$5.0 million, and is the  
23 lesser of (i) one hundred ten percent (110%) of the amount of such Claim as set forth on the  
24 Debtor’s Bankruptcy Schedules, and (ii) \$500,000 more than the amount of such Claim as set  
25 forth on the Debtor’s Bankruptcy Schedules. PG&E anticipated that the requested authority  
26 would enable it to reduce professional fees and other costs for all affected parties in interest,  
27 provide flexibility to expeditiously resolve Claims and facilitate the efficient administration of  
28 the estate. The Bankruptcy Court approved the motion at a hearing held on December 27, 2001.

1 Excepted from the authority to settle without Bankruptcy Court approval are Claims of the  
2 Parent or any affiliate of the Parent, any officer or director of PG&E or the Parent, or any  
3 member of the Committee.

4 In the second motion, PG&E sought authority to file and seek adjudication of certain  
5 preliminary omnibus or grouped objections to Claims on preliminary, but potentially dispositive,  
6 grounds that can be addressed with a minimum expenditure of judicial time and estate resources,  
7 without waiving the right to assert subsequent substantive objections to the same Claim if  
8 necessary. For example, PG&E apparently anticipates asserting preliminary objections on the  
9 grounds that, among other things, (a) certain Claims are duplicative, (b) certain Claims have  
10 been satisfied or otherwise resolved, and (c) certain Claims are time-barred. The proposed  
11 Claims objection procedure allows the efficient and expeditious determination of certain Claims  
12 aggregating billions of dollars without lengthy hearings on the merits. The Bankruptcy Court  
13 approved the motion at a hearing held on December 27, 2001 and also ordered the suspension of  
14 the application of Bankruptcy Rule 7026(a) and (f) to Claims objections proceedings, on the  
15 condition that any claimant whose Claim is subject to an objection be notified that it may request  
16 application of such rule, and that the Bankruptcy Court will consider such request at the first  
17 hearing on the objection.

18 **20. Stipulation with Letter of Credit Issuing Banks and Banks.**

19 Pursuant to an Order dated September 7, 2001, the Bankruptcy Court approved a  
20 stipulation between PG&E, on the one hand, and the Letter of Credit Issuing Banks and the  
21 Banks, on the other hand (the "Class 4e Stipulation"). The Class 4e Stipulation provides, among  
22 other things, that, in exchange for the Letter of Credit Issuing Banks and the Banks agreeing to  
23 continue to maintain and reinstate the Letters of Credit and to forbear from declaring any  
24 defaults thereunder, any Post-Petition Interest drawings under the Letters of Credit will  
25 constitute Allowed Claims in favor of the Letter of Credit Issuing Banks and the Banks. See  
26 Section VI.B.11 of this Disclosure Statement for a description of the treatment of Class 4e under  
27 the Plan.

1           **21. Motion to Assume Main Line Extension Contracts.**

2           On December 27, 2001, PG&E filed a motion for authorization to assume executory main  
3 line extension contracts and pay outstanding amounts due under non-executory main line  
4 extension contracts. PG&E sought authorization to pay an estimated \$89 million over a period  
5 of nine (9) months to parties to approximately 50,000 main line extension contracts with respect  
6 to four types of payments: (a) return of project deposits; (b) payment for work requested by  
7 PG&E that generally would otherwise be the responsibility of PG&E; (c) payment for inspection  
8 fees; and (d) main line extension refunds. The Bankruptcy Court approved the motion at a  
9 hearing held February 6, 2002.

10           **22. Memorandum Decision Regarding Preemption and Sovereign Immunity.**

11           On February 7, 2002, the Bankruptcy Court issued its Memorandum Decision Regarding  
12 Preemption and Sovereign Immunity (the “February 7 Decision”).<sup>27</sup> The following summary  
13 reflects the Commission’s interpretation of the February 7 Decision. PG&E may dispute  
14 portions of this description.

15           In the February 7 Decision, the Bankruptcy Court disapproved PG&E’s December 19,  
16 2001 disclosure statement. The Bankruptcy Court held that PG&E’s disclosure statement  
17 described a plan of reorganization unconfirmable as a matter of law because the plan relied on a  
18 legally defective theory that section 1123 of the Bankruptcy Code expressly preempts certain  
19 provisions of state law. The Bankruptcy Court did, however, find that “the [PG&E Proponents’]  
20 Plan could be confirmed if the [PG&E] Proponents are able to establish with particularity the  
21 requisite elements of implied preemption.” February 7 Decision at 3.

22           The Bankruptcy Court further indicated that certain amendments to the December 19,  
23 2001 version of the PG&E Proponents’ plan and disclosure statement were required to  
24 “overcome the [State’s] sovereign immunity defense.” *Id.* Alternatively, in the absence of such  
25 amendments, the PG&E Proponents “will have to prove that there has been a waiver of sovereign  
26

27 <sup>27</sup> “Memorandum Decision Regarding Preemption and Sovereign Immunity,” February 7, 2002, In re  
28 PACIFIC GAS AND ELECTRIC COMPANY, Bankruptcy Case No. 01-30923 DM, Decision, Docket  
No. 4710, is available on the Bankruptcy Court’s website at <http://www.canb.uscourts.gov>.

1 immunity[,]” in which case, “the Disclosure Statement must be amended to describe why  
2 Proponents believe sovereign immunity has been waived.” *Id.* at 3-4.

3         Based on the Bankruptcy Court’s ruling, the PG&E Proponents may proceed with the  
4 PG&E Plan but confirmation of such plan requires the PG&E Proponents to satisfy the steep  
5 hurdles of overcoming a presumption against implied preemption and the sovereign immunity of  
6 the Commission and the State. While rejecting the proposition that section 1123(a) of the  
7 Bankruptcy Code expressly preempts any otherwise applicable non-bankruptcy law in the  
8 implementation of a confirmed plan of reorganization, the Bankruptcy Court concluded that state  
9 law may be preempted based on a showing of the requisite elements justifying implied  
10 preemption. To meet its burden of proof to justify implied preemption, the Court stated that the  
11 PG&E Proponents must show facts that lead the Court to find that the “application of those laws  
12 to the facts of PG&E’s proposed reorganization are economic in nature rather than directed at  
13 protecting public safety or other noneconomic concerns, and that those particular laws stand as  
14 an obstacle to the accomplishment and execution of the purposes and objectives of Congress and  
15 the Bankruptcy Code.” February 7 Decision at 40-1. In addition, the PG&E Proponents must  
16 rebut the initial presumption that in applying the implied preemption test in the context of a  
17 public utility, “the Court will start with the assumption that the historic police powers of the  
18 States were not to be superseded by the [f]ederal [a]ct unless that was the clear and manifest  
19 intent of Congress.” February 7 Decision at 16. Therefore, although the February 7 Decision  
20 allows the PG&E Proponents to proceed with the PG&E Plan, so long as the PG&E Disclosure  
21 Statement is amended consistent with the February 7 Decision, such plan’s ultimate success  
22 depends on the PG&E Proponents’ satisfaction of the stringent requirements for confirmation set  
23 forth in the February 7 Decision. *Id.* at 3.

24         On the issue of the Commission’s and the State of California’s sovereign immunity, the  
25 Bankruptcy Court found that the PG&E Plan violates the Commission’s and the State’s  
26 sovereign immunity absent a waiver thereof or certain plan amendments which the Commission  
27 does not believe have been made. The Bankruptcy Court recognized that an unresolved issue  
28 was presented by the PG&E Proponents’ arguments that the Commission and the State have

1 waived their sovereign immunity by their participation to date in the Chapter 11 Case and  
2 ordered that such issue be tried at confirmation. The Commission and the State disagree with the  
3 PG&E Proponents' assertions of waiver.

4 The Commission does not believe that the PG&E Proponents can satisfy their burden on  
5 implied preemption and waiver of sovereign immunity at confirmation. First, the PG&E  
6 Proponents will be unable to prove that the laws they seek to preempt are economic in nature;  
7 such laws are directed instead at protecting public safety or other noneconomic concerns and the  
8 Commission will demonstrate as much at confirmation. Second, the PG&E Proponents will be  
9 unable to prove that the Commission and/or the State of California or its other agencies, units  
10 and/or subdivisions have waived their sovereign immunity. For these reasons, among others, the  
11 Commission believes that the PG&E Plan is unconfirmable.

12 **23. Settlement and Support Agreement with Senior Debtholders and**  
13 **Agreement with Letter of Credit Issuing Banks.**

14 (a) Settlement and Support Agreement with Senior Debtholders.

15 At a hearing held on March 27, 2002, the Court entered the Settlement Order  
16 (a) approving the Settlement and Support Agreement between the PG&E Proponents and certain  
17 holders of Senior Indebtedness — i.e., the holders of approximately \$2 billion in Commercial  
18 Paper Claims, Floating Rate Note Claims, Medium Term Note Claims, Senior Note Claims and  
19 Revolving Line of Credit Claims; (b) authorizing PG&E to pay pre-petition interest and Post-  
20 Petition Interest to certain holders of undisputed Claims entitled to interest under the PG&E Plan  
21 on a quarterly basis, commencing either ten (10) days after approval of the PG&E Disclosure  
22 Statement (with respect to Allowed Class 5 Claims for Senior Indebtedness, Allowed Southern  
23 San Joaquin Valley Power Authority Bond Claims and Allowed Claims in Classes 4c, 4f, 4g and  
24 11), or on or before July 30, 2002 (with respect to the remaining Allowed Claims in Class 5 and  
25 Allowed Claims in Classes 1, 2, 6, 7 and 10); and (c) authorizing PG&E to pay the fees and  
26 expenses of the holders of Senior Indebtedness who are parties to the Settlement and Support  
27 Agreement, indenture trustees, and administrative banks and other paying agents on a current  
28 basis.



1 Pursuant to the Settlement and Support Agreement, the principal amount of Allowed  
2 Claims in Class 5 held by the holders of Senior Indebtedness who are parties thereto will be  
3 fixed, and interest will accrue and be paid at certain agreed-upon rates, but such accrual and  
4 payment at the agreed-upon rates may cease and prior payments of interest may be  
5 recharacterized under certain circumstances, including (a) determination by the Bankruptcy  
6 Court that PG&E is insolvent, (b) the confirmation of a plan of reorganization other than the  
7 PG&E Plan,<sup>28</sup> and (c) certain breaches of the Settlement and Support Agreement by such  
8 holders. The holders of Senior Indebtedness who are parties to the Settlement and Support  
9 Agreement have agreed to vote their PG&E Plan General Unsecured Claims in Class 5 Claims,  
10 currently held or acquired in the future in acceptance of the PG&E Plan. However, nothing in  
11 the Settlement and Support Agreement prevents such parties from voting to accept, or expressing  
12 a preference for, the Commission's Plan.

13 (b) Agreement with Letter of Credit Issuing Banks.

14 Subsequent to the entry of the Class 4e Stipulation (discussed in Section V.B.20 above),  
15 the Debtor, the Letter of Credit Issuing Banks and the Banks entered into discussions regarding  
16 an agreement with respect to the treatment under the PG&E Plan of the Allowed Claims in Class  
17 4e which would, at the same time, allow the Debtor to retain the benefits of the tax-free  
18 financing provided by the Letter of Credit Backed PC Bonds. The agreement in broad outline  
19 provides, subject to certain conditions, that in exchange for the payment of various amounts to  
20 the Letter of Credit Issuing Banks and the Banks, such entities will extend the Letters of Credit  
21 and forbear from terminating the Letters of Credit or causing the mandatory tender or redemption  
22 of the Letter of Credit Backed PC Bonds for a period of time. The agreement also provides for  
23 certain treatment for the Claims of Class 4e creditors under the Plan. The Bankruptcy Court  
24 entered an order approving the agreement on April 9, 2002, thus resulting in the treatment of the  
25 Claims in Class 4e as described in Section VI.M.11 below.

26  
27  
28 <sup>28</sup> The Commission's Plan does not provide for any such recharacterization.

1           **24. Motion Seeking Authorization to Pay Certain Claims.**

2           At a hearing held on March 25, 2002, the Bankruptcy Court granted a motion filed by  
3 PG&E seeking authorization to pay certain valid pre-petition claims, specifically, allowed claims  
4 for amounts of \$5,000 or less (or voluntarily reduced by the claimant to \$5,000), undisputed  
5 mechanics' lien claims and undisputed reclamation claims. Pursuant to the motion, PG&E will  
6 pay all such claims on or before July 31, 2002, with interest at the Federal Judgment Rate from  
7 the Petition Date through June 30, 2002. The Bankruptcy Court entered an order approving the  
8 motion on March 29, 2002.

9           **25. Statement of PG&E Proponents' Intentions.**

10           Pursuant to the February 7 Decision, on February 21, 2002, the PG&E Proponents filed  
11 with the Bankruptcy Court a statement indicating that they intended to amend the PG&E Plan  
12 and Disclosure Statement to (a) eliminate express preemption provisions so they can proceed to a  
13 confirmation hearing where they intend to show that implied preemption of specified statutes is  
14 available under the circumstances to confirm the PG&E Plan and (b) state with specificity the  
15 facts that the PG&E Proponents believe demonstrate that the State and the Commission have  
16 waived their sovereign immunity, and, in the event the Bankruptcy Court finds that such  
17 immunity has been waived, provide for declaratory and injunctive relief against the State and the  
18 Commission. The PG&E Proponents further stated that they intend to seek an expedited  
19 interlocutory appeal of an order denying approval of the PG&E Disclosure Statement on the  
20 grounds that the Bankruptcy Court erred in the February 7 Decision finding that express  
21 preemption is not applicable to the PG&E Plan. The PG&E Proponents also stated that, upon  
22 approval of the PG&E Disclosure Statement, they intend to proceed with the solicitation of  
23 consents and confirmation of their plan while the interlocutory appeal is pending. At a hearing  
24 held on February 27, 2002, the Bankruptcy Court granted the Commission and others the right to  
25 file a single brief to argue their position that the February 7 Decision is a non-appealable  
26 interlocutory decision. The Commission and the City and County of San Francisco (the  
27 "CCSF") (joined by the State) each filed briefs arguing this position on March 14, 2002.

28

1           On March 18, 2002, the Bankruptcy Court entered its Order and Judgment Disapproving  
2 Disclosure Statement; Rule 54(b) Certification (the “March 18 Order”), pursuant to  
3 Rules 54(b) and 58 of the Federal Rules of Civil Procedure and Rules 7054, 9014 and 9021 of  
4 the Federal Rules of Bankruptcy Procedure. In the March 18 Order, the Bankruptcy Court  
5 disapproved PG&E’s First Amended Disclosure Statement dated December 19, 2001 for the  
6 reasons set forth in the February 7 Decision, found that there was no just reason to delay review  
7 of its ruling on express preemption but that the other issues addressed in its February 7 Decision  
8 remained subject to further litigation and thus were reserved for final rulings in connection with  
9 the plan confirmation process, and directed the clerk to enter the March 18 Order as a final  
10 judgment pursuant to Rule 54(b) of the Federal Rules of Civil Procedure. On March 22, 2002,  
11 the PG&E Proponents filed a Notice of Appeal from the March 18 Order and an election to have  
12 the appeal heard by the United States District Court, and at the same time filed a protective  
13 motion requesting leave to appeal that order on a discretionary basis under section 158(a)(3) of  
14 title 28, United States Code.

15           On or about March 29, 2002, the Commission and CCSF served the PG&E Proponents  
16 with a Notice of Cross-Appeal from the March 18 Order. In addition, on or about April 1, 2002,  
17 the California Attorney General’s Office filed a separate Notice of Cross-Appeal from the  
18 March 18 Order on behalf of a number of governmental entities. All of these parties identified  
19 for cross-appeal the following two issues: (1) whether the Bankruptcy Court erred in entering  
20 judgment under Rule 54(b) of the Federal Rules of Civil Procedure concerning its ruling on  
21 express preemption; and (2) whether it was an abuse of discretion under Rule 54 for the  
22 Bankruptcy Court to determine that there was not just reason to delay the entry of judgment on  
23 its express preemption ruling. In addition, the Commission and the CCSF also identified as an  
24 issue for cross-appeal the question of whether the March 18 Order complies with the  
25 requirements of Rule 58 of the Federal Rules of Civil Procedure.

26           **26. The Commission’s URG Decision.**

27           The Commission adopted Decision (D) 02-04-106 (the “URG Decision”) on April 4,  
28 2002, which among other things, calls for an increase in PG&E’s rate base. This URG Decision

1 is the first significant step to returning the State's investor-owned electric utilities' electric  
2 generation to a cost-of-service ratemaking basis. Because of the complications surrounding the  
3 determination of an accurate cost basis for the utilities' retained generation, the Commission  
4 adopted an interim revenue requirement based on estimated forecasts. The correct cost basis  
5 must fully recognize the effects of the final accounting treatment for retained generation under  
6 the transition cost recovery process. This means that the rate base must be updated to account  
7 for the accelerated depreciation of generation assets. This accelerated depreciation was  
8 implemented to allow the utilities the opportunity to recover costs that might become  
9 uneconomic in the transition of the electric industry to a competitive wholesale market. Under  
10 the URG Decision, PG&E, and the other utilities, are ordered to make compliance filings  
11 intended to establish the correct remaining book value of their generation assets and the  
12 companies are authorized by the URG Decision to recover their actual costs of service for 2002.  
13 The revenue requirement adopted in the URG Decision is subject to balancing account treatment  
14 so that the utilities will refund any over-collection if actual costs are lower, or be entitled to  
15 recover any shortfall if actual costs are higher than the interim revenue requirements.

16 **27. Foundation for Taxpayer and Consumer Rights Suit.**

17 On April 11, 2002, the Foundation for Taxpayer and Consumer Rights (the "FTCR")  
18 filed a petition for writ of mandamus in the California Supreme Court. The writ seeks an order  
19 from the court prohibiting the Commission from filing or implementing its Plan, arguing that the  
20 Plan violates state law. The Commission filed a letter response with the court on April 17, 2002.  
21 The Commission believes that the suit lacks merit, and believes that it is extremely unlikely that  
22 the California Supreme Court will decide to take the case. However, if the FTCR's application is  
23 granted, an outcome the Commission believes is extremely unlikely, then the Commission may  
24 be unable to further prosecute this Plan without first taking whatever additional action the  
25 California Supreme Court may require.

26 **28. The Commission's Order Instituting Investigation.**

27 On April 22, 2002, the Commission issued an Order Instituting Investigation ("OII") that  
28 provides for an investigation into the ratemaking implications for PG&E that will result from the

1 confirmation of either the PG&E Plan or the Commission's Plan. The Commission initiated the  
2 OII in order to afford parties the opportunity to comment on the Commission's Plan and the  
3 PG&E Plan, and any matters that may need to be decided at this Commission in implementing  
4 such plans.

5 The OII is not an investigation into whether the Commission should file an alternate plan  
6 (the Commission's Plan had already been filed at the time the OII issued), the terms of the Plan,  
7 or whether the terms of the Plan are approved. The Commission voted unanimously (5-0) to  
8 approve the terms of the Plan and authorized its filing with the Bankruptcy Court. The  
9 investigation seeks comment on the "ratemaking implications" that would result from the  
10 confirmation of the PG&E Plan or the Commission's Plan -- implications that are not the subject  
11 of the bankruptcy proceedings. The OII provides that the purpose of opening the investigation is  
12 to provide parties with an opportunity to comment on the two plans -- an opportunity that certain  
13 parties (e.g., ratepayers and their representatives) have not had in Bankruptcy Court. In Ordering  
14 paragraph 2 of the OII, the Commission ordered that "[p]arties shall specifically comment on the  
15 [Competing] Plans, the preferability of any alternatives to the [Competing] Plans, and state  
16 whether proceedings must be initiated at this Commission in furtherance of the [Competing]  
17 Plans."

18 The investigation is currently constituted as a paper hearing providing parties with an  
19 opportunity to comment. Comments were filed on May 10, 2002 by TURN, the Agricultural  
20 Energy Consumers Association, the Office of Ratepayer Advocates, the City and County of San  
21 Francisco, the County of San Luis Obispo and the San Luis Obispo Mothers for Peace. The  
22 FTCR did not file comments. Reply comments are due on May 22, 2002.

23 The Commission's authority to file its Plan is not in any way affected by the OII.

## 24 VI. THE PLAN OF REORGANIZATION

### 25 A. Overview

26 As described herein, the Commission has developed a Plan designed to restore the  
27 Debtor's financial viability and provide for the payment in full of all Allowed Claims. In short,  
28 the Commission's Plan seeks to provide the Debtor with the means to repay in full in Cash (with

1 interest) the short term indebtedness incurred by the Debtor during California's energy crisis.  
2 Much of the Debtor's long term indebtedness would remain outstanding and be satisfied through  
3 the reinstatement of such Allowed Claims. Under the Commission's Plan, the Debtor's business  
4 and operations would remain fully integrated, no state or local laws and regulations would be  
5 dislocated and the Debtor would continue to be regulated by the Commission.

6 The Commission's Plan relies, in large part, upon the "headroom" in rates enjoyed by  
7 PG&E since at least June 2001. This "headroom" has allowed the Debtor to accumulate massive  
8 amounts of Cash which may now be used to repay creditors. In addition, to satisfy the funding  
9 gap between the Allowed Claims to be paid on the Effective Date pursuant to the Plan and the  
10 Debtor's projected available Cash, the Commission's Plan provides for the Debtor's issuance  
11 and sale, through one or more public or private offerings, of new debt and equity securities. The  
12 Commission believes that the sale of these securities, when combined with the Debtor's available  
13 Cash upon its emergence from bankruptcy, and the liquidity under its Exit Facility will provide  
14 the Debtor with the means to repay its creditors in full, emerge as a viable entity and restore the  
15 Debtor to investment grade, thus providing the necessary assurance that the Reorganized Debtor  
16 will be able to service the debt issued in connection with or reinstated under the Plan.

17 The following is a description of the salient provisions of the Commission's Plan,  
18 including the treatment of Allowed Claims and the means of implementing the Commission's  
19 Plan.

20 **B. Classification And Treatment of Claims and Equity Interests**

21 The Commission's Plan classifies Claims and Equity Interests separately and provides  
22 different treatment of different Classes of Claims and Equity Interests in accordance with the  
23 provisions of the Bankruptcy Code. As described more fully below, the Commission's Plan  
24 provides, separately for each Class, that holders of certain Claims and Equity Interests will  
25 receive various amounts and types of consideration, thereby giving effect to different rights of  
26 holders of Claims and Equity Interests in each Class.

27 Pursuant to the Commission's Plan, the Debtor will either pay in full in Cash, reinstate, or  
28 satisfy in the ordinary course of business, all Allowed Claims. Allowed Claims will include the

1 amounts owed with respect to the period prior to the Petition Date and applicable interest  
2 accrued and unpaid during such period. Except as otherwise provided in the Plan, holders of  
3 Allowed Claims will be paid in Cash accrued and unpaid Post-Petition Interest on such Allowed  
4 Claims. Except as otherwise provided under the Plan, including Exhibit 1 thereto, any Post-  
5 Petition Interest shall be calculated and paid at the lowest non-default rate in accordance with the  
6 terms specified in the applicable statute, indenture or instrument governing such Allowed Claim  
7 or, if no such instrument exists, or if the applicable instrument does not specify a non-default rate  
8 of interest, Post-Petition Interest will be calculated and paid on such Allowed Claim at the  
9 Federal Judgment Rate. Except as provided under applicable non-bankruptcy law, Post-Petition  
10 Interest will not be paid on the following Allowed Claims: Administrative Expense Claims,  
11 Professional Compensation and Reimbursement Claims, Environmental, Fire Suppression,  
12 Pending Litigation, Tort and FERC License Claims and Workers' Compensation Claims.

13 Pursuant to the Cash Collateral Order, the Debtor has paid and will continue to pay Post-  
14 Petition Interest to the holders of Allowed Claims in Classes 3 and 4a.<sup>29</sup> In addition, pursuant to  
15 Section 4.2(a) of the Commission's Plan, the Debtor will make payments of Post-Petition  
16 Interest that is accrued and is unpaid on and after the Initial Calculation Date through the last day  
17 of the last calendar quarter ending prior to the Effective Date, in arrears, in quarterly installments  
18 (or in the case of such first quarter following the Initial Calculation Date, for holders of Allowed  
19 Claims for which February 28, 2002 is the Initial Calculation Date, the four-month period from  
20 March 1, 2002 to June 30, 2002) as follows: (x) on the first Business Day of the next calendar  
21 quarter to the holders of Allowed Claims in Class 5 for Senior Indebtedness, the holders of  
22 Allowed Southern San Joaquin Valley Power Authority Bond Claims and the holders of Allowed  
23 Claims in Classes 4c, 4f, 4g and 11, and (y) within thirty (30) days following the end of the  
24 calendar quarter, to the remaining holders of Allowed Class 5 Claims and the holders of Allowed  
25 Claims in Classes 1, 2, 6, 7 and 10. Any Post-Petition Interest that accrues during the period  
26

---

27 <sup>29</sup> The Cash Collateral Order applies to holders of Allowed Claims in Classes 3a and 3b as classified under  
28 the PG&E Plan. Under the Commission's Plan, Classes 3a and 3b are treated as one Class, Class 3.

1 commencing on the first day of the calendar quarter in which the Effective Date occurs and  
2 ending on the Effective Date will be paid on the Effective Date.

3 Pursuant to the Order approving the LC Bank Agreement, the Debtor will (i) within  
4 ten (10) days after the approval of the LC Bank Agreement and thereafter, make payments to  
5 (A) the Letter of Credit Issuing Banks of certain reasonable fees and expenses of professionals  
6 retained by the Letter of Credit Issuing Banks, and (B) the holders of Allowed Claims in Class 4e  
7 of the Forbearance, Extension and Letter of Credit Fees and (ii) within ten (10) days after the  
8 Confirmation Date and thereafter, pay to the holders of Allowed Claims in Class 4e the  
9 outstanding reimbursement claims under the applicable Reimbursement Agreements with respect  
10 to Letter of Credit draws for the payment of interest on the related series of Letter of Credit  
11 Backed PC Bonds, together with accrued and unpaid interest due thereon at the non-default rate  
12 to the extent provided in the applicable Reimbursement Agreements.

13 Pursuant to the Settlement Order and the Settlement and Support Agreement, the accrual  
14 and payment of Post-Petition Interest shall terminate if (i) the Debtor is determined by a Final  
15 Order of the Bankruptcy Court to be insolvent (on a balance sheet basis), with such interest  
16 accrual termination effective as of the date of insolvency, as determined by the Bankruptcy  
17 Court, (ii) upon conversion of the Chapter 11 Case to a case under chapter 7; provided that there  
18 is not a subsequent determination of the Bankruptcy Court that there are assets of sufficient value  
19 to pay Post-Petition Interest on the applicable Allowed Claims. In circumstances where the  
20 accrual and payment of Post-Petition Interest terminates, any payments of Post-Petition Interest  
21 may be recharacterized and treated as a partial payment of the principal amount of the applicable  
22 Allowed Claims.

23 Except as set forth in Sections 4.2(a) and 4.2(b) of the Plan, as described above, and  
24 except to the extent a holder of an Allowed Claim or Equity Interest has otherwise been paid all  
25 or a portion of such holder's Allowed Claim or Equity Interest prior to the Effective Date, each  
26 of the distributions specified in Article IV of the Plan with respect to each Allowed Claim or  
27 Equity Interest shall (i) occur on the later of the Effective Date and the date such Allowed Claim  
28 or Equity Interest becomes an Allowed Claim or Equity Interest, or as soon as practicable



1 thereafter, and (ii) be in full and complete settlement, satisfaction and discharge of such Allowed  
2 Claim or Equity Interest. See Section VI.E. of this Disclosure Statement for more information  
3 regarding the timing of distributions under the Plan.

4 **1. Administrative Expense Claims.**

5 Administrative Expense Claims are Claims constituting a cost or expense of  
6 administration of the Chapter 11 Case allowed under sections 503(b) and 507(a)(1) of the  
7 Bankruptcy Code. Such Claims include all actual and necessary costs and expenses of  
8 preserving the estate of the Debtor, all actual and necessary costs and expenses of operating the  
9 business of the Debtor-in-Possession, any indebtedness or obligations incurred or assumed by the  
10 Debtor-in-Possession in connection with the conduct of its business, all cure amounts owed in  
11 respect of leases and contracts assumed by the Debtor-in-Possession, all compensation and  
12 reimbursement of expenses to the extent Allowed by the Bankruptcy Court under section 330 or  
13 503 of the Bankruptcy Code, and any fees or charges assessed against the estate of the Debtor  
14 under section 1930 of chapter 123 of title 28, United States Code.

15 Except to the extent that any entity entitled to payment of any Allowed Administrative  
16 Expense Claim agrees to a less favorable treatment, pursuant to the Commission's Plan each  
17 holder of an Allowed Administrative Expense Claim shall receive Cash in an amount equal to  
18 such Allowed Administrative Expense Claim on the later of the Effective Date and the date such  
19 Administrative Expense Claim becomes an Allowed Administrative Expense Claim, or as soon  
20 thereafter as is practicable, or on such other date as may be ordered by the Bankruptcy Court;  
21 provided, however, that Allowed Administrative Expense Claims representing liabilities incurred  
22 in the ordinary course of business by the Debtor-in-Possession (including, but not limited to, real  
23 and personal property taxes and franchise fees) or liabilities arising under loans or advances to or  
24 other obligations incurred by the Debtor-in-Possession shall be paid in full and performed by the  
25 Debtor in the ordinary course of business in accordance with the terms and subject to the  
26 conditions of any agreements governing, instruments evidencing or other documents relating to  
27 such transactions. Except as provided under applicable non-bankruptcy law, Post-Petition  
28 Interest will not be paid on Allowed Administrative Expense Claims.

1           **2. Professional Compensation and Reimbursement Claims.**

2           Professional Compensation and Reimbursement Claims are Administrative Expense  
3 Claims for the compensation of professionals and reimbursement of expenses incurred by such  
4 professionals, the Committee and members of the Committee pursuant to sections 503(b)(2),  
5 503(b)(3), 503(b)(4) and 503(b)(5) of the Bankruptcy Code. All payments to professionals for  
6 Professional Compensation and Reimbursement Claims will be made in accordance with the  
7 procedures established by the Bankruptcy Code, the Bankruptcy Rules and the Bankruptcy Court  
8 relating to the payment of interim and final compensation for services rendered and  
9 reimbursement of expenses. The Bankruptcy Court will review and determine all applications  
10 for compensation for services rendered and reimbursement of expenses.

11           Pursuant to the Commission's Plan, each holder of a Professional Compensation and  
12 Reimbursement Claim (a) shall file by no later than the date that is ninety (90) days after the  
13 Confirmation Date, or such other date as may be fixed by the Bankruptcy Court a final  
14 application for the allowance of compensation for services rendered and reimbursement of  
15 expenses incurred, and (b) if granted, such an award by the Bankruptcy Court will be paid in full  
16 in such amounts as are allowed by the Bankruptcy Court (i) on the date such Professional  
17 Compensation and Reimbursement Claim becomes an Allowed Professional Compensation and  
18 Reimbursement Claim, or as practicable thereafter or (ii) upon such other terms as may be  
19 mutually agreed upon between such holder of an Allowed Professional Compensation and  
20 Reimbursement Claim and the Debtor. The Commission intends to file an application under  
21 section 503(b)(3) of the Bankruptcy Code and/or the Commission's legal and financial advisors  
22 intend to file applications under section 503(b)(4) of the Bankruptcy Code, which, under the  
23 Commission's Plan, would be treated as an Administrative Expense Claim and a Professional  
24 Compensation and Reimbursement Claim, respectively. See Section VI.O.12 below for a  
25 description of the nature and scope of such 503(b) applications. Except as provided under  
26 applicable non-bankruptcy law, Post-Petition Interest will not be paid on Allowed Professional  
27 Compensation and Reimbursement Claims.

1           **3.     Priority Tax Claims.**

2           Priority Tax Claims are Claims for taxes entitled to priority in payment under section  
3 507(a)(8) of the Bankruptcy Code.

4           Pursuant to the Commission’s Plan, except to the extent that a holder of an Allowed  
5 Priority Tax Claim has been paid by the Debtor prior to the Effective Date or agrees to a  
6 different treatment, each holder of an Allowed Priority Tax Claim shall receive, in full and  
7 complete settlement, satisfaction and discharge of its Allowed Priority Tax Claim, including  
8 Post-Petition Interest, Cash in an amount equal to such Allowed Priority Tax Claim on the later  
9 of the Effective Date and the date such Priority Tax Claim becomes an Allowed Priority Tax  
10 Claim, or as soon as practicable thereafter.

11           **4.     Class 1 - Other Priority Claims.**

12           Other Priority Claims are Claims that are entitled to priority in accordance with  
13 section 507(a) of the Bankruptcy Code, other than Administrative Expense Claims and Priority  
14 Tax Claims. The Debtor has represented that all Other Priority Claims have been or will be paid  
15 pursuant to an order of the Bankruptcy Court. Accordingly, there should be no Allowed Other  
16 Priority Claims.

17           Class 1 is unimpaired under the Commission’s Plan. Pursuant to the Commission’s Plan,  
18 except to the extent that a holder of an Allowed Other Priority Claim has been paid by the Debtor  
19 prior to the Effective Date or agrees to a different treatment, each holder of an Allowed Other  
20 Priority Claim, if any exist, will be paid in full in Cash in an amount equal to such Allowed  
21 Claim.

22           **5.     Class 2 - Other Secured Claims.**

23           The Debtor has indicated that the Other Secured Claims will include Claims relating to  
24 mechanics’ and materialmen’s liens and secured tax claims, as well as any Secured Claims other  
25 than those Secured Claims in Class 3 and Class 4a.

26           Class 2 is unimpaired under the Commission’s Plan. Pursuant to the Plan, except to the  
27 extent that a holder of an Allowed Other Secured Claim has been paid by the Debtor prior to the  
28 Effective Date or agrees to a different treatment, at the sole option of the Debtor, the Claims of

1 each holder of an Allowed Other Secured Claim shall be (a) reinstated and rendered unimpaired  
2 in accordance with section 1124(2) of the Bankruptcy Code, or (b) paid Cash in an amount equal  
3 to such Allowed Other Secured Claim, including any interest on such Allowed Other Secured  
4 Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant  
5 to section 506(b) of the Bankruptcy Code.

6 **6. Class 3 - Secured Claims Relating to First and Refunding Mortgage Bonds.**

7 Class 3 includes (a) Secured Claims against the Debtor evidenced by (a) 6.250% First  
8 and Refunding Mortgage Bonds Series 93C due August 1, 2003; (b) 6.250% First and Refunding  
9 Mortgage Bonds Series 93G due March 1, 2004; (c) 5.875% First and Refunding Mortgage  
10 Bonds Series 93E due October 1, 2005; (d) 6.250% First and Refunding Mortgage Bonds Series  
11 81B due August 1, 2011; (e) 8.800% First and Refunding Mortgage Bonds Series 91A due  
12 May 1, 2024; (f) 8.375% First and Refunding Mortgage Bonds Series 92B due May 1, 2025;  
13 (g) 8.250% First and Refunding Mortgage Bonds Series 92D due November 1, 2022; (h) 7.250%  
14 First and Refunding Mortgage Bonds Series 93A due March 1, 2026; (i) 7.250% First and  
15 Refunding Mortgage Bonds Series 93D due August 1, 2026; (j) 6.750% First and Refunding  
16 Mortgage Bonds Series 93F due October 1, 2023; and (k) 7.050% First and Refunding Mortgage  
17 Bonds Series 93H due March 1, 2024, each issued by the Debtor under a First and Refunding  
18 Mortgage under which BNY Western Trust Company was trustee on the Petition Date, together  
19 with any Matured and Unpresented First and Refunding Mortgage Bonds, provided that the  
20 Debtor is not waiving any rights or claims it may have under applicable non-bankruptcy law  
21 against any holder of any Matured and Unpresented First and Refunding Mortgage Bond or any  
22 other party with respect thereto, and (b) Secured Claims against the Debtor evidenced by the  
23 Mortgage Bonds that secure the Mortgage Backed PC Bond Claims.

24 Class 3 is unimpaired under the Commission's Plan. Pursuant to the Commission's Plan,  
25 the First and Refunding Mortgage Bonds and each of the First and Refunding Mortgage Bond  
26 Documents will remain outstanding and will be reinstated and rendered unimpaired in  
27 accordance with section 1124(2) of the Bankruptcy Code. On the Effective Date, each holder of  
28 an Allowed Secured Claim Relating to First and Refunding Mortgage Bonds will be paid Cash in

1 an amount equal to any and all accrued and unpaid interest owed to such holder in respect of  
2 such First and Refunding Mortgage Bond in accordance with the terms of the respective First  
3 and Refunding Mortgage Bond, to and including the last scheduled interest payment date  
4 preceding the Effective Date. All unpaid fees and expenses due and owing under the applicable  
5 series of First and Refunding Mortgage Bonds shall also be paid in Cash.

6 **7. Class 4a - Mortgage Backed PC Bond Claims.**

7 Mortgage Backed PC Bond Claims are the Claims of the Issuer, Bond Trustee and the  
8 holders of Mortgage Backed PC Bonds for all amounts due and owing by the Debtor under the  
9 Loan Agreements and each of the other PC Bond Documents executed by the Debtor in  
10 connection with the issuance of each series of Mortgage Backed PC Bonds.

11 Class 4a is unimpaired under the Commission's Plan. Pursuant to the Commission's  
12 Plan, each series of Mortgage Backed PC Bonds and each of the PC Bond Documents will  
13 remain outstanding and will be reinstated and rendered unimpaired in accordance with  
14 section 1124(2) of the Bankruptcy Code. On the Effective Date, each holder of a Mortgage  
15 Backed PC Bond will be paid Cash in an amount equal to any and all accrued and unpaid interest  
16 owed to such holder in respect of such Mortgage Backed PC Bond in accordance with the terms  
17 thereunder to and including the last scheduled interest payment date preceding the Effective  
18 Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the  
19 applicable Loan Agreements will also be paid in Cash.

20 **8. Class 4b - MBIA Insured PC Bond Claims.**

21 MBIA Insured PC Bond Claims are the Claims of the Issuer, Bond Trustee and the  
22 holders of MBIA Insured PC Bonds for all amounts due and owing by the Debtor under the Loan  
23 Agreement and each of the other PC Bond Documents executed by the Debtor in connection  
24 with the issuance of the MBIA Insured PC Bonds.

25 Class 4b is unimpaired under the Commission's Plan. Pursuant to the Commission's  
26 Plan, the MBIA Insured PC Bonds will remain outstanding. The Loan Agreement and the PC  
27 Bond Documents related to the MBIA Insured PC Bonds will be reinstated and rendered  
28 unimpaired in accordance with section 1124(2) of the Bankruptcy Code. On the Effective Date,

1 each holder of a MBIA Insured PC Bond will be paid Cash in an amount equal to any and all  
2 accrued and unpaid interest owed to such holder with respect to such MBIA Insured PC Bond in  
3 accordance with the terms thereof to and including the last scheduled interest payment date  
4 preceding the Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due  
5 and owing under the Loan Agreement will be paid in Cash.

6 **9. Class 4c - MBIA Claims.**

7 MBIA Claims consist of (a) the contingent Claims of MBIA with respect to payments  
8 which may become due by the Debtor under the terms of the MBIA Reimbursement Agreement  
9 as reimbursement for payments made by MBIA under the PC Bond Insurance Policy, and (b) the  
10 Claims of MBIA for any and all accrued and unpaid amounts due by the Debtor under the MBIA  
11 Reimbursement Agreement, including any and all amounts due by the Debtor as reimbursement  
12 of amounts paid by MBIA under the PC Bond Insurance Policy to the Bond Trustee for the  
13 payment of interest on the MBIA Insured PC Bonds.

14 Class 4c is impaired under the Commission's Plan. Pursuant to the Commission's Plan,  
15 on the Effective Date, each holder of an Allowed MBIA Claim will receive Cash in an amount  
16 equal to its pro rata share of the aggregate amount paid by MBIA to the Bond Trustee with  
17 respect to the payment of interest on the MBIA Insured PC Bonds during the period from the  
18 Petition Date to and including the last scheduled interest payment date preceding the Effective  
19 Date, together with its pro rata share of all other amounts then due and owing to MBIA under the  
20 terms of the MBIA Reimbursement Agreement through the Effective Date, including interest due  
21 on such amounts to the extent provided in the MBIA Reimbursement Agreement at the non-  
22 default rate.

23 **10. Class 4d - Letter of Credit Backed PC Bond Claims.**

24 Letter of Credit Backed PC Bond Claims are the Claims against the Debtor by the Issuer,  
25 Bond Trustee and the holders of Letter of Credit Backed PC Bonds for all amounts due and  
26 owing by the Debtor under the Loan Agreements and each of the other PC Bond Documents  
27 executed by the Debtor in connection with the issuance of each series of Letter of Credit Backed  
28 PC Bonds.

1 Class 4d is unimpaired under the Commission's Plan. Pursuant to the Commission's  
2 Plan, each series of Letter of Credit Backed PC Bonds will remain outstanding. Each of the  
3 Loan Agreements and the PC Bond Documents related to the Letter of Credit Backed PC Bonds  
4 will be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy  
5 Code. Each holder of a Letter of Credit Backed PC Bond will be paid in Cash in an amount  
6 equal to any and all accrued and unpaid interest owed to such holder in respect of such Letter of  
7 Credit Backed PC Bond in accordance with the terms thereof to and including the last scheduled  
8 interest payment date preceding the Effective Date. All unpaid fees and expenses of the Issuer  
9 and Bond Trustee due and owing under the applicable Loan Agreement will also be paid in Cash.

10 **11. Class 4e - Letter of Credit Bank Claims.**

11 The Letter of Credit Bank Claims consist of: (i) Allowed Letter of Credit Bank Claims in  
12 the amount of any and all accrued and unpaid amounts due by the Debtor under each of the  
13 Reimbursement Agreements (as modified by the LC Bank Agreement), including, without  
14 limitation, any and all amounts due by the Debtor as reimbursement of amounts paid by a Letter  
15 of Credit Issuing Bank under its Letter of Credit to the Bond Trustee for the payment of interest  
16 on the related Letter of Credit Backed PC Bonds and any and all interest and fees due thereunder  
17 and (ii) with respect to payments which may become due by the Debtor under the terms of each  
18 of the Reimbursement Agreements (as modified by the LC Bank Agreement), including, without  
19 limitation, as reimbursement for amounts drawn under the Letters of Credit as well as for interest  
20 and fees due thereunder, contingent Claims in an amount equal to any and all such outstanding  
21 amounts.

22 Class 4e is impaired under the Commission's Plan. To the extent that the Debtor has not  
23 reimbursed the applicable Letter of Credit Issuing Bank and the applicable Banks, if any, for  
24 drawings made on the related Letter of Credit with respect to the payment of interest on the  
25 related series of Letter of Credit Backed PC Bonds to the extent provided in the respective  
26 Reimbursement Agreement, then, commencing within ten (10) days after the Confirmation Date,  
27 each holder of an Allowed Letter of Credit Bank Claim will be paid Cash in an amount equal to  
28 its pro rata share of the aggregate amount paid by the respective Letter of Credit Issuing Bank to

1 the respective Bond Trustee under the terms of the applicable Letter of Credit with respect to the  
2 payment of the interest on the Letter of Credit Backed PC Bonds to which such Letter of Credit  
3 Bank Claim relates during the period from the Petition Date to and including the last scheduled  
4 interest payment date on such Letter of Credit Backed PC Bonds preceding the Effective Date.  
5 Each holder of an Allowed Letter of Credit Bank Claim will also be paid Cash in an amount  
6 equal to its pro rata share of all other amounts then due and owing to the respective Letter of  
7 Credit Issuing Bank and the applicable Banks, if any, under the terms of the respective  
8 Reimbursement Agreement (other than for reimbursement of drawings on the respective Letter  
9 of Credit) through the Effective Date, including, without limitation, interest at the interest rate  
10 due on such amounts to the extent provided in the respective Reimbursement Agreements, and  
11 any due and owing Forbearance, Extension and Letter of Credit Fees (as hereinafter defined)  
12 through the Effective Date, and the reasonable fees and expenses of unrelated third-party  
13 professionals retained by the Letter of Credit Issuing Banks, to the extent incurred subsequent to  
14 the Petition Date in the Chapter 11 Case, which with respect to each Letter of Credit Issuing  
15 Bank for the period prior to December 1, 2001, to the extent payment of such fees and expenses  
16 are approved by the Bankruptcy Court prior to the Confirmation Date and such payment is made  
17 prior to the Confirmation Date, shall be in an aggregate amount equal to the amount mutually  
18 agreed to by the Debtor and each Letter of Credit Issuing Bank. Additionally, on the  
19 Confirmation Date, pursuant to the terms of the LC Bank Agreement, the Debtor has agreed,  
20 among other things and subject to certain conditions, to pay to Deutsche Bank AG New York  
21 Branch an agency fee in the amount of \$250,000. The interest rate on each Letter of Credit Bank  
22 Claim, interest payment start date and interest payment intervals are set forth on Exhibit 1 to the  
23 Plan.

24 On the Effective Date one of the following shall occur with respect to each series of  
25 Letter of Credit Backed PC Bonds and its respective Letter of Credit, at the option of the Debtor  
26 separately for each series of Letter of Credit Backed PC Bonds:

27 (a) **Purchase Option**: The respective series of Letter of Credit Backed PC Bonds  
28 shall be called for mandatory tender in accordance with the terms of the respective Indenture and



1 shall be purchased by the respective Bond Trustee through a draw on the related Letter of Credit  
2 and, at the option of the respective Letter of Credit Issuing Bank, shall either be registered in the  
3 name of the respective Letter of Credit Issuing Bank or in the name of the Debtor subject to a  
4 first lien security interest in favor of the respective Letter of Credit Issuing Bank to additionally  
5 secure the obligations of the Debtor under the related Reimbursement Agreement.

6 On the Effective Date, to the extent that the Debtor has not reimbursed the applicable  
7 Letter of Credit Issuing Bank and the applicable Banks, if any, for drawings made on the related  
8 Letter of Credit with respect to the payment of interest on the related series of Letter of Credit  
9 Backed PC Bonds to the extent provided in the respective Reimbursement Agreement, each  
10 holder of an Allowed Letter of Credit Bank Claim will receive Cash in an amount equal to its pro  
11 rata share of the interest portion of the purchase price of the tendered Letter of Credit Backed PC  
12 Bonds paid out of a draw on the respective Letter of Credit.

13 On the Effective Date, the Letter of Credit Issuing Bank shall transfer the related Letter  
14 of Credit Backed PC Bonds in the aggregate principal amount as set forth on Exhibit 2 to the  
15 Plan to the Debtor free and clear of all liens. On the Effective Date, each holder of an Allowed  
16 Letter of Credit Bank Claim will receive its pro rata share of Cash in an amount equal to the  
17 principal portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid  
18 out of a draw on the respective Letter of Credit.

19 -or-

20 (b) **Remarketing Option**: The respective series of Letter of Credit Backed PC  
21 Bonds shall be called for mandatory tender in accordance with the terms of the respective  
22 Indenture and shall be purchased by the respective Bond Trustee through a draw on the related  
23 Letter of Credit. The Debtor will then either (1) provide or cause to be provided to the respective  
24 Bond Trustee an alternative “Credit Facility” pursuant to the terms of the respective Indenture in  
25 lieu of the existing Letter of Credit, or (2) shall obtain the consent of the Issuer to remarket the  
26 respective series of Letter of Credit Backed PC Bonds without credit enhancement in accordance  
27 with the terms of the applicable Indenture. In either event the respective series of Letter of  
28

1 Credit Backed PC Bonds shall be remarketed, at par, in accordance with the terms of the  
2 Indenture and the other PC Bond Documents.

3 In such event, on the Effective Date, the Letter of Credit Issuing Bank will receive  
4 (1) from the Debtor, to the extent that the Debtor has not reimbursed the applicable Letter of  
5 Credit Issuing Bank and the applicable Banks, if any, for drawings made on the related Letter of  
6 Credit with respect to the payment of interest on the related series of Letter of Credit Backed PC  
7 Bonds to the extent provided in the respective Reimbursement Agreement, Cash in an amount  
8 equal to the interest portion of the purchase price of the tendered Letter of Credit Backed PC  
9 Bonds paid out of a draw on the respective Letter of Credit, and (2) from the Bond Trustee, an  
10 amount equal to the principal portion of the purchase price of the tendered Letter of Credit  
11 Backed PC Bonds paid out of a draw on the respective Letter of Credit, which amount shall be  
12 paid from the remarketing proceeds of the respective Letter of Credit Backed PC Bonds in  
13 accordance with the terms of the respective Indenture.

14 -or-

15 (c) **No Bonds Option**: With respect to each Letter of Credit Issuing Bank and the  
16 related Banks, if any, in the event that neither the Purchase Option nor the Remarketing Option,  
17 as applicable, can be consummated or the respective series of Letter of Credit Backed PC Bonds  
18 are redeemed on or prior to the Effective Date as the result of the expiration of the respective  
19 Letter of Credit or otherwise, then either:

20 (1) The Class 4e Claim of such Letter of Credit Issuing Bank and the applicable  
21 Banks, if any, would be converted to a Class 4f Claim in an amount equal to the amount due by  
22 the Debtor under the terms of the respective Reimbursement Agreement as reimbursement for  
23 amounts paid by such Letter of Credit Issuing Bank under its respective Letter of Credit to the  
24 Bond Trustee for the payment of the principal portion of the redemption price of the related  
25 series of Letter of Credit Backed PC Bonds; or

26 (2) If (a) the Letter of Credit Issuing Bank maintains its Letter of Credit outstanding  
27 in its initial stated amount through the Effective Date and does not provide the Trustee with  
28 notice of default under its Reimbursement Agreement or non-reinstatement of its Letter of Credit

1 or take any other action which would result in the redemption, either in whole or in part, of the  
2 outstanding Letter of Credit Backed PC Bonds without the prior written consent of the Debtor,  
3 and (b) the Letter of Credit Issuing Bank and each of the related Banks, if any, take all action  
4 reasonably required by the Debtor to keep the Letter of Credit Backed PC Bonds outstanding and  
5 to facilitate either the Purchase Option or the Remarketing Option, as applicable, including,  
6 without limitation, giving direction to the Trustee, providing commercially reasonable  
7 indemnification to the Issuer and Trustee, and using their best efforts to consummate the  
8 proposed amendments to the terms of the Letter of Credit Backed PC Bonds as described herein  
9 and to consummate either the Purchase Option or the Remarketing Option as applicable, so as to  
10 maintain for the Debtor the benefits of the tax-exempt financing provided by the related series of  
11 Letter of Credit Backed PC Bonds, then in the event that the Letter of Credit Backed PC Bonds  
12 are redeemed on or prior to the Effective Date for reasons beyond the control of the Letter of  
13 Credit Issuing Bank, the Letter of Credit Issuing Bank will receive Cash in an amount equal to  
14 the principal portion of the redemption price of the redeemed Letter of Credit Backed PC Bonds  
15 paid out of a draw on the respective Letter of Credit.

16           Upon information and belief, since the Petition Date, consistent with its duties as a  
17 Debtor-in-Possession, the Debtor has not reimbursed any of the Letter of Credit Issuing Banks  
18 for any of the payments they have made pursuant to the several post-petition draws by the  
19 respective Bond Trustee which have been applied to the payment of interest on the related series  
20 of Letter of Credit Backed PC Bonds. As a result thereof, each of the Letter of Credit Issuing  
21 Banks has had the right upon the passage of time, the giving of notice or both to (a) declare a  
22 default under its respective Reimbursement Agreement, (b) notify the respective Bond Trustee of  
23 such default, and (c) direct the respective Bond Trustee to call an “Event of Default” under the  
24 terms of the respective Indenture and, in accordance with the terms of the respective Indenture,  
25 cause the Bond Trustee to declare the respective series of Letter of Credit Backed PC Bonds  
26 immediately due and payable.

27           However, pursuant to the terms of the LC Bank Agreement that was approved by order of  
28 the Bankruptcy Court entered on April 9, 2002, among the Debtor and each of the Letter of

1 Credit Issuing Banks, the Letter of Credit Issuing Banks have agreed, among other things and  
2 subject to certain conditions, to (a) maintain each of the Letters of Credit outstanding in the  
3 stated amounts set forth on Exhibit 2 to the Plan, (b) not provide the Trustee with notice of any  
4 default under any of the Reimbursement Agreements or non-reinstatement of any of the Letters  
5 of Credit or take any other action which would result in the mandatory tender or redemption,  
6 either in whole or in part, of any of the outstanding Letter of Credit Backed PC Bonds without  
7 the prior written consent of the Debtor, and (c) extend the expiration date of each of the Letters  
8 of Credit to the first business day subsequent to the one (1) year anniversary of the existing  
9 expiration date of each Letter of Credit existing as of the Petition Date. In consideration for such  
10 forbearance and other actions by the Letter of Credit Issuing Banks, the Debtor has agreed,  
11 among other things and subject to certain conditions, to pay to each Letter of Credit Issuing  
12 Bank, (a) during the period from and after the date such payments are approved by the  
13 Bankruptcy Court and continuing until the Confirmation Date, quarterly, in arrears, the Letter of  
14 Credit fee as set forth in the respective Reimbursement Agreement (the "Original Letter of Credit  
15 Fee"), together with an amount equal to the positive difference, if any, of an amount per annum  
16 equal to two percent (2%) of the Stated Amount of the Letter of Credit, less the Original Letter  
17 of Credit Fee, which total fee accrues from and after December 1, 2001 and until the  
18 Confirmation Date, and has been payable on the same dates as are set forth for payment of Letter  
19 of Credit Fees in the applicable Reimbursement Agreement, and (b) during the period from and  
20 after the Confirmation Date and continuing until the Effective Date, quarterly, in arrears, the  
21 Original Letter of Credit Fee, together with an amount equal to the positive difference, if any, of  
22 an amount per annum equal to three percent (3%) of the Stated Amount of the Letter of Credit,  
23 less the Original Letter of Credit Fee, which total fee accrues from and after the Confirmation  
24 Date until the Effective Date, and shall be payable on the same dates as are set forth for payment  
25 of Letter of Credit fees in the applicable Reimbursement Agreement (the Original Letter of  
26 Credit Fee together with such additional sums being hereinafter referred to collectively as the  
27 "Forbearance, Extension and Letter of Credit Fees").

1           **12.     Class 4f - Prior Bond Claims.**

2           Prior Bond Claims consist of the Claims of the Prior Letter of Credit Issuing Banks and  
3 the related Banks, if any, for any and all accrued and unpaid amounts due by the Debtor under  
4 their respective Prior Reimbursement Agreements, including amounts due as reimbursement of  
5 amounts paid by each Prior Letter of Credit Issuing Banks under its respective Prior Letter of  
6 Credit to the Bond Trustee for the payment of the redemption price of the related series of Prior  
7 Bonds.

8           Class 4f is unimpaired under the Commission's Plan.<sup>30</sup> Each Allowed Prior Bond Claim  
9 will be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy  
10 Code. On the Effective Date one of the following shall occur with respect to each Prior  
11 Reimbursement Agreement and all of the Allowed Prior Bond Claims arising with respect  
12 thereto:

13           (a)     Each holder of an Allowed Prior Bond Claim will be paid Cash in an amount  
14 equal to (i) the outstanding Reimbursement Obligation, or portion thereof, owing to such holder,  
15 (ii) any and all accrued and unpaid interest owing to such holder in respect of such  
16 Reimbursement Obligation or applicable portion thereof at a fluctuating rate of interest in  
17 accordance with the terms of the applicable Reimbursement Agreement, and (iii) all other  
18 amounts due and owing to the respective holder of an Allowed Prior Bond Claim under the terms  
19 of the respective Prior Reimbursement Agreement, through the Effective Date.

20           -or-

21           (b)     Alternatively, upon the written request of the Debtor, with the prior written  
22 consent of the respective Prior Letter of Credit Issuing Bank, the related Banks and each of the  
23 other holders of Allowed Prior Bond Claims related thereto, each such holder of an Allowed  
24 Prior Bond Claim will be paid Cash in an amount equal to (i) any and all accrued and unpaid

25 <sup>30</sup>     The Prior Reimbursement Agreements provide for the payment of interest on the outstanding  
26 Reimbursement Obligation at a fluctuating interest rate per annum (computed on the basis of a year of 365  
27 or 366 days, as the case may be) equal to one and one-half percent (1.5%) plus the applicable "prime rate"  
28 or "base rate" as defined in the related Prior Reimbursement Agreement. Any dispute by the holder of a  
Prior Bond Claim as to calculation of interest payable upon its Prior Bond Claim will be determined by the  
Bankruptcy Court in the amount necessary to leave unimpaired such Prior Bond Claim.

1 interest owing to such holder in respect of the Reimbursement Obligation or applicable portion  
2 thereof owing to such holder at a fluctuating rate of interest in accordance with the terms of the  
3 applicable Reimbursement Agreement, and (ii) all other amounts (other than the Reimbursement  
4 Obligation or applicable portion thereof) due and owing to the respective holder of an Allowed  
5 Prior Bond Claim under the terms of the respective Prior Reimbursement Agreement, through  
6 the Effective Date. On the Effective Date, the applicable Prior Letter of Credit Issuing Bank, the  
7 related Banks and any other holders of Allowed Prior Bond Claims related thereto shall sell,  
8 transfer and assign to the Debtor or its assignee, all of the Prior Letter of Credit Issuing Banks',  
9 the applicable Banks', and all of the related Allowed Prior Bond Claim holders' rights, title and  
10 interest in the applicable Prior Reimbursement Agreement, including, but not limited to, the right  
11 to receive repayment of the related Reimbursement Obligation, together with the right to receive  
12 payment of interest thereon as set forth in the applicable Prior Reimbursement Agreement, free  
13 and clear of all liens. In such event, on the Effective Date, the Debtor or its assignee shall  
14 purchase from the Prior Letter of Credit Issuing Bank, the related Banks and the holders of the  
15 related Allowed Prior Bond Claims, all of their rights, title and interests in the applicable Prior  
16 Reimbursement Agreement for a purchase price in Cash in an amount equal to the respective  
17 Reimbursement Obligation. All of the documents related to the transfer and sale of rights under  
18 the Prior Reimbursement Agreement shall be in form and content satisfactory to the Debtor, the  
19 Prior Letter of Credit Issuing Bank, the related Banks and each of the other holders of Allowed  
20 Prior Bonds Claims related thereto.

21 **13. Class 4g - Treasury PC Bond Claims.**

22 Treasury PC Bond Claims are the Claims of the Issuer, Bond Trustee and the holders of  
23 Treasury PC Bonds for all amounts due and owing by the Debtor under the Loan Agreements  
24 and each of the other PC Bond Documents executed by the Debtor in connection with the  
25 issuance of each series of Treasury PC Bonds.

26 Class 4g is unimpaired under the Commission's Plan. Pursuant to the Commission's  
27 Plan, each series of Treasury PC Bonds, and the Loan Agreements and PC Bond Documents  
28 related thereto, shall remain outstanding. Each of the Loan Agreements and PC Bond

1 Documents related to the Treasury PC Bonds will be reinstated and rendered unimpaired in  
2 accordance with section 1124(2) of the Bankruptcy Code. On the Effective Date, each holder of  
3 a Allowed Treasury PC Bond Claim will be paid in Cash an amount equal to any and all accrued  
4 and unpaid interest owed to such holder with respect of such Treasury PC Bond in accordance  
5 with the terms thereof to and including the last scheduled interest payment date preceding the  
6 Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing  
7 under the applicable Loan Agreement will also be paid in Cash.

8 **14. Class 5 - General Unsecured Claims.**

9 Class 5 includes, but is not limited to, (a) Revolving Line of Credit Claims, (b) Medium  
10 Term Note Claims, (c) Senior Note Claims, (d) Floating Rate Note Claims, (e) Southern San  
11 Joaquin Valley Power Authority Bond Claims, (f) Claims against the Debtor arising from the  
12 rejection of executory contracts and unexpired leases under section 365 of the Bankruptcy Code,  
13 (g) Claims against the Debtor relating to pre-petition litigation (other than Pending Litigation  
14 Claims, as defined in Section 1.1. of the Plan, which are classified as Class 8 Claims), (h) Claims  
15 against the Debtor by the Debtor's vendors, suppliers and service providers, (i) Claims relating to  
16 intercompany obligations to Affiliates, and (j) Commercial Paper Claims; provided, however that  
17 General Unsecured Claims will not include any unsecured Claims included in any other Class.

18 Class 5 is impaired under the Commission's Plan. Each holder of an Allowed General  
19 Unsecured Claim shall be paid in Cash in an amount equal to such Allowed Claim (which shall  
20 include pre-petition interest only to the extent not previously paid).

21 **15. Class 6 - ISO, PX and Generator Claims.**

22 Class 6 includes Allowed Claims of the ISO, PX and various power generators for  
23 purchases of electricity or ancillary services by the Debtor in markets operated by the PX and the  
24 ISO.

25 The Debtor has represented that the aggregate amount of ISO, PX and Generator Claims  
26 filed is materially higher than the amount the Debtor believes is allowable under the Plan. The  
27 Debtor has indicated that there are at least \$4 billion in duplicate ISO, PX and Generator Claims  
28 resulting from clerical errors, identical Claims filed by the PX and electric power generators, and

1 amendments to Claims filed without withdrawing the original Claim. In addition to these  
2 duplicates, the amount of Claims filed by electric power generators, the PX and the ISO for  
3 supplying power (without allocating a certain portion of such amount to the Debtor) is \$3.9  
4 billion. The Debtor's share of this amount is \$1.7 billion according to the account summaries  
5 received by the Debtor as of April 3, 2002 from the PX for the period through January 17, 2001.  
6 Many Claims were also filed relating to services provided after January 17, 2001, the latest date  
7 on and after which the applicable FERC decisions preclude the imposition of such costs on the  
8 Debtor. Also, the Debtor has indicated that it expects to recover at least \$400 million in refunds  
9 through the FERC's determination of just and reasonable rates, subject to further hearings and  
10 appeals. In addition, one generator has agreed to a pre-petition offset of its Claim in the amount  
11 of \$200 million. Thus, the Debtor has estimated that the allowable amount of ISO, PX and  
12 Generator Claims is approximately \$1.1 billion. All ISO, PX and Generator Claims are Disputed  
13 Claims.<sup>31</sup>

14 Class 6 is impaired under the Commission's Plan. Each holder of an Allowed ISO, PX  
15 and Generator Claim shall be paid Cash in an amount equal to such Allowed Claim (which shall  
16 include pre-petition interest only to the extent not previously paid).

---

19 <sup>31</sup> At or before the Confirmation Hearing, the Debtor has stated that it intends to propose a means for  
20 establishing (a) the aggregate amount of Allowed Claims for purposes of evaluating the feasibility of the  
21 Plan and (b) the aggregate amount necessary to fund adequately a reserve for Disputed Claims. The Debtor  
22 has represented that for purposes of final determination of Allowed ISO, PX and Generator Claims, the  
23 Debtor will prosecute its contentions before the FERC and will not attempt to obtain a determination of  
24 such matters before the Bankruptcy Court or any other forum, except for the limited process described in  
25 the preceding sentence and to the extent the Debtor has an objection unrelated to the subject matter of the  
26 FERC proceedings. Nothing in this paragraph precludes the Debtor from asserting any other defense or  
27 objection to any Allowed ISO, PX and Generator Claims. The Debtor has stated that it intends to negotiate  
28 with the PX Participants' Committee in good faith to attempt to resolve issues relating to the valuation of  
Allowed ISO, PX and Generator Claims for feasibility purposes. The Debtor has stated that it further  
intends to file one or more objections to Allowed ISO, PX and Generator Claims. After consultation with  
the PX Participants' Committee, the Debtor has stated that it intends to seek approval of an allocation of the  
aggregate estimated Claim among the individual participants solely for purposes of voting. To the extent  
that an individual participant did not file a proof of claim prior to the September 5, 2001 bar date in reliance  
on the Claim filed by the PX, the Debtor has stated that it intends to allow all such participants to file  
Claims at any time prior to the valuation of Allowed ISO, PX and Generator Claims for feasibility  
purposes, or the Debtor intends to file a Claim on behalf of any non-filing participant.



1           **16.     Class 7 - ESP Claims.**

2           Class 7 includes Allowed Claims of ESPs with respect to PX energy credits to be paid by  
3 the Debtor to such ESPs. The Debtor provides PX energy credits to those customers who have  
4 chosen to buy electricity from an ESP other than the Debtor. The amount of such credit is then  
5 paid to the applicable ESP, provided the ESP has passed the credit onto the customer. All ESP  
6 Claims are Disputed Claims.

7           The aggregate amount of ESP Claims filed is materially higher than the amount the  
8 Debtor believes is allowable under the Plan. Of the \$576 million of ESP Claims filed,  
9 approximately \$55 million are duplicate Claims. In addition, the energy credits were based on  
10 wholesale electricity prices the FERC has determined to be unjust and unreasonable. The Debtor  
11 has indicated that it expects to ask the Commission to make approximately \$101 million in  
12 reductions in the credits to be paid to the ESPs based on FERC orders. In addition, the Debtor  
13 disputes the validity of all of the PX energy credits because the Debtor believes that the retail  
14 rate freeze ended as early as August 2000 (which, according to the Debtor, would eliminate the  
15 credits).<sup>32</sup>

16           Class 7 is impaired under the Commission’s Plan. Each holder of an Allowed ESP Claim  
17 will be paid in Cash in an amount equal to such Allowed Claim (which shall include pre-petition  
18 interest only to the extent not previously paid).

19           **17.     Class 8 – Environmental, Fire Suppression, Pending Litigation, Tort and**  
20           **FERC License Claims.**

21           Class 8 includes any Environmental Claims, Fire Suppression Claims, Pending  
22 Litigation, Tort Claims and FERC License Claims but does not include (a) any Claims fully  
23 settled, liquidated or determined by a Final Order or a binding award, agreement or settlement  
24 prior to the Petition Date for amounts payable by the Debtor for damages or other obligations in  
25 a fixed dollar amount payable in a lump sum or by a series of payments (which Claims are  
26 classified as General Unsecured Claims), or (b) Chromium Litigation Claims.

27 \_\_\_\_\_  
28 <sup>32</sup>       The Commission disagrees with the Debtor that the rate freeze ended as early as August 20, 2000.

1           Class 8 is unimpaired under the Commission's Plan. Subject to Section 4.16(b) of the  
2 Commission's Plan described below, each Allowed Environmental, Fire Suppression, Pending  
3 Litigation, Tort and FERC License Claim shall be satisfied in full in the ordinary course of  
4 business at such time and in such manner as the Debtor or the Reorganized Debtor, as the case  
5 may be, is obligated to satisfy such Allowed Claim under applicable law. Except as provided  
6 under applicable non-bankruptcy law, Post-Petition Interest will not be paid on Allowed  
7 Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims.

8           Section 4.16(b) of the Commission's Plan provides that all Environmental, Fire  
9 Suppression, Pending Litigation, Tort and FERC License Claims are Disputed Claims and shall  
10 be determined, resolved, or adjudicated, as the case may be, in a manner as if the Chapter 11  
11 Case had not been commenced (except that, under sections 365 and/or 1123(b)(2) of the  
12 Bankruptcy Code, contractual provisions, accelerations and defaults eliminated or rendered  
13 unenforceable by such sections shall remain eliminated or unenforceable, and the stay shall  
14 remain in place for any Environmental, Fire Suppression, Pending Litigation, Tort and FERC  
15 License Claims as to which sections 365 and/or 1123(b)(2) of the Bankruptcy Code are  
16 applicable) and shall survive the Effective Date as if the Chapter 11 Case had not been  
17 commenced and, upon the determination, resolution or adjudication of any such Claim as  
18 provided herein, such Claim shall be deemed to be an Allowed Environmental Claim, Allowed  
19 Fire Suppression Claim, Allowed Pending Litigation Claim, Allowed Tort Claim or Allowed  
20 FERC License Claim, as the case may be, in the amount or in the manner determined by a Final  
21 Order or by a binding award, agreement, or settlement; provided, however, that in addition to the  
22 Debtor's preservation of all rights and defenses respecting any Environmental Claim, Fire  
23 Suppression Claim, Pending Litigation Claim, Tort Claim or FERC License Claim that exist  
24 under applicable nonbankruptcy law, (i) any rejection, avoidance, recovery or other power or  
25 defense available to the debtor under section 365, 510 (except subordination), 542, 543, 544,  
26 545, 547, 548, 549, 550, 553 or 724 of the Bankruptcy Code is preserved, except with respect to  
27 any Environmental Order, and (ii) the Debtor may object under section 502 of the Bankruptcy  
28 Code to any Environmental Claim, Fire Suppression Claim, Pending Litigation Claim, Tort

1 Claim or FERC License Claim on the ground that (a) such Environmental Claim, Fire  
2 Suppression Claim, Pending Litigation Claim, Tort Claim or FERC License Claim was not  
3 timely asserted in the Chapter 11 Case, (b) such Environmental Claim, Fire Suppression Claim,  
4 Pending Litigation Claim, Tort Claim or FERC License Claim is subject to any power or defense  
5 reserved in clause (i) of this sentence and/or is disallowable under section 502(d) of the  
6 Bankruptcy Code, or (c) such Environmental Claim, Fire Suppression Claim, Pending Litigation  
7 Claim, Tort Claim or FERC License Claim is disallowable under section 502(e) of the  
8 Bankruptcy Code, to the extent such section is relied on to ensure that there is no duplication in  
9 the claim of an allegedly subrogated claimant, on the one hand, and the underlying claimant  
10 whose claim allegedly gave rise to the subrogated claim, on the other. Subject to the foregoing,  
11 all Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims shall be  
12 determined and liquidated under applicable nonbankruptcy law in the administrative or judicial  
13 tribunal in which they are pending as of the Effective Date or, if no such action is pending on the  
14 Effective Date, in any administrative or judicial tribunal of appropriate jurisdiction (other than  
15 the Bankruptcy Court). To effectuate the foregoing, the entry of the Confirmation Order shall,  
16 effective as of the Effective Date, constitute a modification of any stay or injunction under the  
17 Bankruptcy Code that would otherwise preclude the determination, resolution, or adjudication of  
18 any Environmental Claims, Fire Suppression Claims, Pending Litigation Claims, Tort Claims or  
19 FERC License Claims, except for any Environmental Claim, Fire Suppression Claim, Pending  
20 Litigation Claim, Tort Claim or FERC License Claim arising out of the exercise by the Debtor,  
21 as Debtor-in-Possession, of any rejection, avoidance, recovery, or other power or defense  
22 available to it pursuant to any one or more of sections 365, 510 (except subordination), 542, 543,  
23 544, 545, 547, 548, 549, 550, 553 or 724 of the Bankruptcy Code, except with respect to any  
24 Environmental Order. Nothing contained in section 4.16(b) of the Plan, described here, will  
25 constitute or be deemed to constitute a waiver or release of any (i) claim, right or Cause of  
26 Action that the Debtor or Reorganized Debtor may have against any Person or Governmental  
27 Entity in connection with or arising out of any Environmental, Fire Suppression, Pending  
28 Litigation, Tort and FERC License Claims, including, but not limited to, any rights under section

1 157(b) of title 28, United States Code, or (ii) defense in any action or proceeding in any  
2 administrative or judicial tribunal, including, but not limited to, with respect to the jurisdiction of  
3 such administrative or judicial tribunal, except a defense to a Claim that was timely filed in the  
4 Chapter 11 Case and that constitutes an Environmental Claim, a Fire Suppression Claim, a  
5 Pending Litigation Claim, a Tort Claim or a FERC License Claim, where such defense is based  
6 on the discharge of section 1141(d) of the Bankruptcy Code. In light of the unimpaired pass-  
7 through treatment of Environmental Claims, Fire Suppression Claims, Pending Litigation  
8 Claims, Tort Claims and FERC License Claims hereunder, the Reorganized Debtor waives the  
9 discharge of section 1141(d) of the Bankruptcy Code as to any Claim that was timely filed in the  
10 Chapter 11 Case and that constitutes an Environmental Claim, a Fire Suppression Claim, a  
11 Pending Litigation Claim, a Tort Claim, or a FERC License Claim.

12 As to any consent decree, injunction, cleanup and abatement order or any other  
13 administrative or judicial order or decree binding upon the Debtor and in effect as of the  
14 Effective Date (whether originating before or after the Petition Date) that pertains to any  
15 environmental matter described in clauses (a) through (c) of the definition of Environmental  
16 Claim under the Plan (each an "Environmental Order"), each such Environmental Order,  
17 regardless of whether it constitutes or is characterized as an Environmental Claim, shall also  
18 survive the Effective Date as if the Chapter 11 Case had not been commenced, shall not be  
19 discharged under section 1141(d) of the Bankruptcy Code, and shall not otherwise be adversely  
20 affected by the Chapter 11 Case (except for any objection to such Environmental Claim based on  
21 the contention that such Environmental Order is an Environmental Claim that was not timely  
22 asserted in the Chapter 11 Case).

23 **18. [Intentionally Blank]**

24 **19. Class 10 - Convenience Claims.**

25 Class 10 includes Allowed Claims of vendors, suppliers and service providers or arising  
26 from the rejection of executory contracts and unexpired leases as defined in section 365 of the  
27 Bankruptcy Code (a) in the amount of \$100,000 or less or (b) consensually reduced to \$100,000  
28 by the holder of the Claim.

1 Class 10 is unimpaired under the Commission's Plan. Each holder of an Allowed  
2 Convenience Claim will be paid Cash in an amount equal to one hundred percent (100%) of such  
3 Allowed Claim.

4 **20. Class 11 - QUIDS Claims.**

5 Class 11 includes Unsecured Claims against the Debtor evidenced by 7.90% Deferrable  
6 Interest Subordinated Debentures, Series A, due December 31, 2025 issued pursuant to an  
7 indenture by and between the Debtor and National City Bank of Indiana, as successor-in-interest  
8 to Bank One Trust Company, N.A., as successor-in-interest to the First National Bank of  
9 Chicago, as trustee, as supplemented by the First Supplemental Indenture dated November 28,  
10 1995, as supplemented by the Second Supplemental Indenture dated March 25, 1996.

11 Class 11 is impaired under the Commission's Plan. Each holder of an Allowed QUIDS  
12 Claim will be paid Cash in an amount equal to such Allowed Claim.

13 **21. Class 12 - Workers' Compensation Claims.**

14 Class 12 includes any Workers' Compensation Claims arising prior to the Petition Date.  
15 Class 12 is unimpaired under the Commission's Plan. Each Allowed Workers' Compensation  
16 Claim arising prior to the Petition Date shall be satisfied in full in the ordinary course of business  
17 at such time and in such manner as the Debtor or the Reorganized Debtor, as the case may be, is  
18 obligated to satisfy such Allowed Claim under applicable law. Post-Petition Workers'  
19 Compensation Claims are treated as Administrative Expense Claims and shall receive the same  
20 pass-through treatment as Workers' Compensation Claims arising prior to the Petition Date.  
21 Except as provided under applicable non-bankruptcy law, Post-Petition Interest will not be paid  
22 on any Workers' Compensation Claims. Nothing in the Commission's Plan shall affect (a) the  
23 subrogation rights, to the extent applicable or available, of any surety of pre-petition or post-  
24 petition Workers' Compensation Claims or (b) the rights of the Debtor to object, pursuant to the  
25 Bankruptcy Code, to the existence of any such subrogation rights.

26 **22. Class 13 - Preferred Stock Equity Interests.**

27 Class 13 includes the Debtor's First Preferred Stock, par value \$25.00 per share, and the  
28 Debtor's \$100 First Preferred Stock, par value \$100.00 per share. The Debtor's First Preferred

1 Stock includes: (a) 6% Non-Redeemable First Preferred, (b) 5.5% Non-Redeemable First  
2 Preferred, (c) 5% Non-Redeemable First Preferred, (d) 5% Redeemable First Preferred Series D,  
3 (e) 5% Redeemable First Preferred Series E, (f) 4.80% Redeemable First Preferred, (g) 4.50%  
4 Redeemable First Preferred, (h) 4.36% Redeemable First Preferred, (i) 6.57% Redeemable First  
5 Preferred, (j) 7.04% Redeemable First Preferred, and (k) 6.30% Redeemable First Preferred.

6 Class 13 is unimpaired under the Commission's Plan.<sup>33</sup> Each holder of a Preferred Stock  
7 Equity Interest will retain its Preferred Stock in the Reorganized Debtor and will receive in Cash  
8 any dividends and sinking fund payments accrued in respect of such Preferred Stock through the  
9 last scheduled payment date prior to the Effective Date.

10 **23. Class 14 - Common Stock Equity Interests.**

11 Class 14 includes one hundred percent (100%) of 326,926,667 issued and outstanding  
12 shares of common stock of Debtor as of April 19, 2002, all of which shares are held directly or  
13 indirectly by the Parent.

14 Class 14 is impaired under the Commission's Plan. The holders of the Common Stock  
15 Equity Interests shall retain their interests in the Common Stock subject to dilution resulting  
16 from the issuance of Equity Interests by the Reorganized Debtor as described in Article VII of  
17 the Plan.

18 **C. Plan Implementation**

19 **1. Issuance of Securities Under the Plan.**

20 Pursuant to the Commission's Plan, on or before the Effective Date, the Reorganized  
21 Debtor shall issue and sell through one or more public or private offerings new debt securities of  
22 and Equity Interests in the Reorganized Debtor, the net proceeds of which, in addition to the  
23 Debtor's available Cash, will be sufficient to satisfy all Allowed Claims under the Plan to be

24 \_\_\_\_\_  
25 <sup>33</sup> While the Commission believes that Class 13 is unimpaired by the Plan, certain holders of Preferred Stock  
26 Equity Interests may believe that Class 13 is impaired by the Plan. To avoid delaying the voting process,  
27 holders of Preferred Stock Equity Interests are being solicited to vote on the Plan as a precautionary  
28 measure so that the voting results will be available if it is determined by the Bankruptcy Court that such  
Class is impaired. Allowing the holders of Preferred Stock Equity Interests to vote shall be without  
prejudice to the Commission's contention that this Class is unimpaired and the Commission reserves the  
right to contest any objection to the unimpaired status of this Class.

1 paid in Cash. The terms and estimated amounts of debt securities to be issued under the Plan are  
2 described on Exhibit 3 to the Plan. SUCH TERMS AND ESTIMATED AMOUNTS REMAIN  
3 SUBJECT TO CHANGE BASED UPON, AMONG OTHER FACTORS, ACTUAL OR  
4 PERCEIVED MARKET CONDITIONS AND RATING AGENCY REQUIREMENTS AT THE  
5 TIME OF ISSUANCE, THE AMOUNT OF THE REORGANIZED DEBTOR'S AVAILABLE  
6 CASH ON THE EFFECTIVE DATE, AND THE AMOUNT OF ALLOWED CLAIMS. At all  
7 times prior to their issuance, the Committee shall be given reasonable observation rights in the  
8 process of structuring marketing, pricing and selling the securities. The securities to be issued  
9 are described generally below.

10 The Commission's Plan was designed following an analysis of the projected cash flows  
11 of the Reorganized Debtor based on information provided by PG&E. The ability to issue debt  
12 securities based on these cash flows was then evaluated in terms of market perception of the  
13 relative risks associated with the Debtor's business to identify the relative debt capacity which  
14 would permit an investment grade, creditworthy status for the debt securities.

15 The aggregate debt required to implement the Commission's Plan closely correlates with  
16 the value of PG&E's assets based on book capitalization. The value of the assets to be held by  
17 the Reorganized Debtor, based on the book capitalization of such assets, is roughly equivalent to  
18 the Reorganized Debtor's rate base for ratemaking purposes because its rates will be regulated  
19 based on its costs.

20 As described more fully below, it is anticipated that the securities to be issued by the  
21 Reorganized Debtor under the Commission's Plan will be marketed by underwriters. Once the  
22 registration statements with respect to such securities have been declared effective by the SEC,  
23 the securities will be priced and, with respect to the debt securities, the underwriting syndicate  
24 will determine the appropriate interest rates.

25 (a) Reorganized Debtor New Money Notes

26 To implement the Commission's Plan, on or before the Effective Date, the Reorganized  
27 Debtor will issue and sell, through one or more private or public offerings, the Reorganized  
28 Debtor New Money Notes in an original aggregate principal amount sufficient to yield net

1 proceeds of approximately \$3.86 billion, the terms of which are described on Exhibit 3 to the  
2 Commission's Plan, the net proceeds of which will be used to fund payments to holders of  
3 Allowed Claims.

4 (b) Equity Interests

5 In addition, pursuant to the Commission's Plan, on or before the Effective Date, the  
6 Reorganized Debtor will issue and sell, through one or more private or public offerings, new  
7 Equity Interests in the Reorganized Debtor sufficient to yield net proceeds of approximately  
8 \$1.75 billion. The net proceeds of the Reorganized Debtor's issuance and sale of new Equity  
9 Interests will be used to fund payments to holders of Allowed Claims. The terms of the new  
10 Equity Interests to be issued, including the price(s), will be determined by the market. The  
11 Commission does not believe that the issuance and sale of the new Equity Interests will result in  
12 a change of control.

13 **2. Exit Facility.**

14 Pursuant to the Commission's Plan, on or before the Effective Date, the Reorganized  
15 Debtor will also obtain and establish a new revolving credit facility (the "Credit Facility") and  
16 capital expenditure sub-facility (the "Sub-Facility," and together with the Credit Facility,  
17 collectively, the "Exit Facility"). The Credit Facility will amount to approximately \$1.9 billion  
18 and will be used for the purposes of funding operating expenses and seasonal fluctuations of  
19 working capital as well as funding distributions to the holders of Allowed Claims, if necessary.  
20 The Sub-Facility will total approximately \$500 million. The Credit Facility will have a carve-  
21 out of approximately \$955 million for letters of credit, which may be needed to post collateral  
22 for workers' compensation liabilities. The terms of the Exit Facility are described on Exhibit 3  
23 to the Plan.

24 **3. The Commission's Efforts to Secure Financing.**

25 As described above, the Commission's Plan is premised on raising approximately \$3.9  
26 billion in debt financing and \$1.75 billion in equity financing through one or more public or  
27 private offerings, together with \$1.9 billion in the form of a credit facility, which would be  
28 available to be drawn on the Effective Date (collectively, the "Financing"). To date, the



1 Commission, together with its legal and financial advisors, Paul, Weiss and Chanin, have worked  
2 diligently to raise the Financing by, among other things, (a) developing a buyer list, (b) preparing  
3 due diligence/data room materials,<sup>34</sup> (c) preparing presentation documents and memoranda,  
4 (d) soliciting indications of interest, and (e) meeting with and making presentations to potential  
5 underwriters and investors.

6 Specifically, Chanin, the Commission's financial advisor, has contacted several global  
7 and nationally recognized investment banks as well as many creditors and equity investors, many  
8 of whom have expressed interest in providing the Financing sought under the Commission's  
9 Plan. Two potential underwriters have met in person with Chanin, Paul, Weiss and the  
10 Commission and have reviewed and understand the terms of the Commission's Plan, the  
11 Financing requirements, the Debtor's credit profile, as well as the risks inherent in the Debtor's  
12 business. These banks are now about to begin the due diligence process. Upon completion of  
13 the due diligence process Chanin is optimistic that it will receive a highly confident letter which  
14 is tantamount to a commitment to raise the Financing.

15 Chanin has also identified and contacted several potential equity investors capable of  
16 providing the equity financing in whole or in part. These potential equity investors include  
17 existing shareholders, mutual funds, hedge funds and high net worth individuals. Chanin has had  
18 several meetings with certain potential equity investors. Certain of such investors have also had  
19 meetings with Chanin, Paul Weiss, and the Commission. These potential investors are  
20 completing their due diligence process. Upon completion of the due diligence process, Chanin is  
21 optimistic that it will receive a firm commitment for the equity financing in whole or in part.

22 Chanin expects that, upon completion of the due diligence process, the Commission will  
23 receive commitments to raise and/or invest in the Financing. Chanin's belief is informed by,  
24 among other things, the following:

- 25 • Investment Grade Profile. The Reorganized Debtor will (a) only have \$7.7 billion in  
26 debt, (b) meet the quantitative criteria for investment grade as set forth by S&P and  
27 Moody's, and (c) have a commitment from the Commission to restore the

28 <sup>34</sup> Development of the data room at PG&E Corp. is in process.

1 Reorganized Debtor's creditworthiness, particularly as it relates to the qualitative  
2 rating criteria.

- 3 • Asset Base and Earnings Generating Capacity. The Reorganized Debtor has a high  
4 quality asset base and significant earnings generating capacity. At emergence,  
5 Chanin estimates that the Reorganized Debtor will have approximately \$24 billion in  
6 assets, \$8 billion in operating liabilities and a rate base of \$15 billion. The regulated  
7 return on rate base is 9.12%, which will enable the Reorganized Debtor to generate  
8 the cash flows required to support the securities contemplated under the Financing.
- 9 • Valuation. Based on Chanin's analysis of the Reorganized Debtor's cash flow  
10 generating capacity, Chanin believes that the Reorganized Debtor has the debt  
11 capacity to support the Financing. Chanin further believes that the internal rate of  
12 return likely to be required by equity investors is capable of being realized and one  
13 that equity investors should find very attractive.
- 14 • Marketability. Chanin believes that the debt and equity securities will be marketable  
15 based on (a) current trading levels of the existing securities of the Debtor and Edison,  
16 (b) current trading levels of the Parent's common equity,<sup>35</sup> and (c) indications of  
17 interest thus far from underwriters and equity investors.

#### 11 **4. Settlement of Litigation.**

12 Pursuant to section 1123(b)(3)(A) of the Bankruptcy Code, a plan may provide for the  
13 "settlement or adjustment of any claim or interest belonging to the debtor or to the estate . . . ."  
14 In order to gain bankruptcy court approval, such settlement must generally (i) reflect a  
15 reasonable balance of the risks and expenses of litigation against the benefits and early resolution  
16 of the disputes; (ii) fall within the range of reasonableness for the resolution of complex  
17 litigation or litigable issues and claims; and (iii) be fair and equitable and in the best interests of  
18 the Debtor, its estate and all holders of Claims and Equity Interests. The Commission's Plan  
19 provides that on or prior to the Effective Date, the Debtor shall dismiss the Rate Recovery  
20 Litigation with prejudice in consideration of the benefits to the Debtor provided for under the  
21 Commission's Plan.

22 As described above in Section III.E.1. of the Disclosure Statement, in the Rate Recovery  
23 Litigation PG&E asked the court for declaratory and injunctive relief compelling the  
24 Commission to permit the Debtor to recover in retail rates costs which it incurred or incurs in the  
25 federally-regulated wholesale market. Dismissal of the Rate Recovery Litigation is reasonable  
26 and in the best interests of creditors. First, certain, but not all, of the relief PG&E seeks by way

27 \_\_\_\_\_  
28 <sup>35</sup> The Reorganized Debtor's asset value represents a substantial portion of the Parent's asset value.

1 of the Rate Recovery Litigation and related claims for transition costs is being provided to  
2 PG&E under the Commission's Plan in the form of "headroom" in rates from June 2001 through  
3 the Effective Date. In addition, if the Commission's Plan is confirmed, the Commission will  
4 permit the Debtor to recover in rates the cost of the debt securities to be issued under the Plan,  
5 the proceeds of which are being used to repay a large portion of PG&E's indebtedness incurred  
6 during the energy crisis.

7         Second, PG&E faces substantial litigation risks in the Rate Recovery Litigation.  
8 Specifically, currently pending before the district court is the Commission's motion to dismiss  
9 PG&E's complaint on the grounds that (i) it is based on the false premise that the AB 1890 retail  
10 rate freeze had precluded PG&E's full recovery of its electric operating costs (instead of its  
11 stranded costs); (ii) PG&E's challenge to the Commission's interpretation of the AB 1890 rate  
12 freeze is barred by the doctrine of judicial estoppel; (iii) PG&E's claims are barred under the  
13 well-pleaded complaint rule; (iv) the entanglement of state law issues with federal law issues  
14 warrants abstention; (v) PG&E has failed to state any preemption claims; (vi) the Johnson Act,  
15 28 U.S.C. § 1342, is a jurisdictional bar to federal court jurisdiction over PG&E's constitutional  
16 claims; (vii) PG&E's case is not ripe; and (viii) the Eleventh Amendment bars federal court  
17 jurisdiction due to the intrusion on State sovereignty to decide PG&E's retail rates. The final  
18 two issues, involving ripeness and the Eleventh Amendment, preclude federal court jurisdiction  
19 over all of PG&E's claims. The court took the motion to dismiss under submission on  
20 February 7, 2002. TURN has also moved to dismiss the Filed Rate Case.

21         Even if PG&E's complaint survives the motions to dismiss, which the Commission does  
22 not believe it will, the Commission also has a number of defenses to the Rate Recovery  
23 Litigation. Chief among them is that as a matter of state law PG&E's claims all fail because  
24 PG&E has fully recovered all of the wholesale power costs at issue in that litigation. In short, as  
25 a matter of state law AB 1890 requires PG&E to net all of the revenues it received during the  
26 entire rate freeze period against all of the operating costs PG&E incurred during that same time.  
27 Because PG&E's revenues during the rate freeze period vastly exceeded its operating costs,  
28 PG&E cannot plausibly claim that the Commission prevented it from recovering its operating

1 costs in violation of federal law. During the rate freeze PG&E undoubtedly experienced serious  
2 cash-flow problems that led it to voluntarily file for bankruptcy. But, no matter how serious  
3 those problems were, they do not provide a basis for the claims PG&E has asserted in federal  
4 court. Cross-motions for summary judgment, focusing on this last issue, are currently pending,  
5 and are set for hearing on May 24, 2002.

6 Based on the foregoing, together with additional evidence the Commission intends to  
7 present at confirmation, the Commission intends to prove at the Confirmation Hearing that  
8 dismissal with prejudice of the Rate Recovery Litigation and related claims satisfies the  
9 applicable standard for settlements under a plan of reorganization.<sup>36</sup>

10 To effectuate the Debtor's dismissal with prejudice of the Rate Recovery Litigation, the  
11 Debtor shall execute and deliver to the Commission all pleadings and release documents required  
12 by the Commission in connection with such dismissal, which shall be in form and substance  
13 satisfactory to the Commission, specifically releasing any and all claims and Causes of Action  
14 that the Debtor has or may have against the State of California and the Commission and their  
15 respective present and former commissioners (in their official capacities), officers, employees,  
16 advisors, consultants and professionals, that arise from:

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

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

25 (c) the Commission's Decision No. 01-03-082 (the March 27 Order).

26  
27  
28 <sup>36</sup> PG&E has advised the Commission that it does not believe that such a showing can be made.

1           **5.     New Tax Sharing Agreement.**

2           As part of the implementation of the Plan, the Parent and the Reorganized Debtor will  
3 enter into the New Tax Sharing Agreement, replacing the Existing Tax Sharing Agreement.  
4 Based upon information currently available to it, the Commission expects that the Reorganized  
5 Debtor will continue to be a member of the affiliated group of corporations filing a consolidated  
6 tax return of which the Parent is the common parent (the “Parent Affiliated Group”). The  
7 purpose of the New Tax Sharing Agreement is to facilitate the sale of equity interests in the  
8 Reorganized Debtor by making certain that the Reorganized Debtor’s contribution to the Parent  
9 Affiliated Group’s income tax payments are determined in manner that is fair, equitable and  
10 consistent with market practice. To this end, the New Tax Sharing Agreement will provide that  
11 the Reorganized Debtor is required to make payments to the Parent in an amount equal to the  
12 income tax liability that the Reorganized Debtor and its subsidiaries (the “Hypothetical Affiliated  
13 Group”) would have incurred if the Reorganized Debtor had filed consolidated or combined  
14 income tax returns on behalf of an affiliated group that included only the members of the  
15 Hypothetical Affiliated Group. Similarly, the Parent will be obligated to make payments to the  
16 Reorganized Debtor in an amount equal to the amount of tax refunds that the Reorganized  
17 Debtor would be entitled to receive if the Reorganized Debtor had filed such returns on behalf of  
18 an affiliated group that included only the members of the Hypothetical Affiliated Group for all  
19 prior taxable years. The New Tax Sharing Agreement thus allocates income tax liability  
20 between the Parent and the Reorganized Debtor in a manner that is intended to be the same as if  
21 the Parent were the Internal Revenue Service (or the appropriate taxing authority in the case of  
22 state and local income taxes), charged with collecting and refunding taxes in respect of a  
23 hypothetical affiliated group of which the Reorganized Debtor is the common parent.

24           The Commission understands that the Parent and the Debtor have operated under the  
25 Existing Tax Sharing Agreement in a manner that is substantially the same as that provided  
26 under the New Tax Sharing Agreement. The Existing Tax Sharing Agreement is rather general  
27 in its terms and is incomplete in certain respects. For example, it does not expressly provide for  
28 payments by the Parent of tax refund amounts in any circumstances. The Commission believes

1 that a more complete document that is similar to the New Tax Sharing Agreement would be  
2 required by equity investors in the Reorganized Debtor, and the New Tax Sharing Agreement is  
3 therefore needed to facilitate the sale of equity interests as part of the Commission's Plan.

4 **6. Regulation.**

5 Pursuant to the Commission's Plan, the Commission has agreed to adopt such decisions  
6 or orders as are necessary to implement Article VII of its Plan (Implementation of the Plan), it  
7 being understood that, as of and subject to the occurrence of the Confirmation Date, the  
8 Confirmation Order shall be irrevocably binding upon the Commission, notwithstanding such  
9 future decisions and orders of the Commission.<sup>37</sup> In addition, the Plan requires the Debtor to  
10 timely seek all regulatory approvals from all other applicable Governmental Entities that the  
11 Debtor believes are necessary to effectuate the transactions specified in the Commission's Plan.

12 Consistent with applicable law, the Commission shall regulate the Reorganized Debtor's  
13 operations to the full extent that it regulated the Debtor's operations prior to the Petition Date in  
14 accordance with all applicable law. In that regard, the Reorganized Debtor will operate its  
15 business in accordance with all applicable laws and regulations promulgated or issued by the  
16 Commission and all other Governmental Entities having jurisdiction over its business.

17 **7. Pre-Effective Date Servicing of the Net Open Position.**

18 Due to its lack of creditworthiness, PG&E, since early 2001, has not been able to procure  
19 power for its customers from sources other than (a) the DWR's long-term contracts or  
20 (b) PG&E's generating facilities or other long-term contracts with QFs and other power  
21 providers. In other words, PG&E has had no access to the FERC-regulated "spot market" for the  
22 purchase of power. Pursuant to ABX1 1, this procurement gap (the "Net Open Position" or  
23 "NOP") has been filled by DWR's power purchases. Pursuant to the Commission's Plan, upon

24 <sup>37</sup> A similar provision is contained in the settlement agreement and stipulated judgment approved by the  
25 District Court in connection with Edison's rate recovery litigation against the Commission. TURN, Reliant  
26 Energy Services, Inc., Mirant Americas Energy Marketing, L.P., and the California Manufacturers and  
27 Technology Association have filed separate appeals of the District Court's approval of such settlement  
28 agreement and stipulated judgment challenging, among other things, the Commission's capacity to consent  
to and be bound thereby. These appeals have been consolidated by the United States Appeals Court for the  
Ninth Circuit, where they have been briefed and argued and remain pending. The Commission is confident  
that it will prevail on appeal.

1 the Effective Date of January 31, 2003, the Reorganized Debtor will be an investment grade  
2 entity capable of serving the NOP. DWR's statutory authority to purchase power on behalf of  
3 PG&E, however, expires on December 31, 2002. Therefore a one month "gap" exists between  
4 the Reorganized Debtor's resumption of the NOP and DWR's statutory mandate to purchase  
5 power. Though the Commission's Plan does not require the Reorganized Debtor to assume the  
6 NOP in January 2003, the Commission does anticipate that there will be legislative, executive or  
7 other action to ensure that the NOP remains serviced through the Effective Date. If, for whatever  
8 reason, the Reorganized Debtor is ordered to assume the NOP in January, the Commission,  
9 pursuant to the requirements of cost-of-service ratemaking, will ensure that the Reorganized  
10 Debtor's reasonable, prudently-incurred costs for such assumption are passed on to ratepayers.  
11 Upon the occurrence of the Effective Date, or as soon thereafter as practicable, the Reorganized  
12 Debtor will be required to resume procurement of the NOP in accordance with applicable state  
13 and federal law, including Commission and FERC regulations.

14 **8. DWR Contracts.**

15 The Plan does not provide for the assignment of DWR's long-term contracts to the  
16 Debtor. If such contracts eventually are assigned to the Debtor after the Effective Date, then,  
17 under cost-of-service rate-making, the Debtors would be permitted to recover its reasonable,  
18 prudently incurred costs under such contracts through rates.

19 **D. Method of Distribution Under the Plan**

20 All distributions under the Commission's Plan shall be made by the Debtor as Disbursing  
21 Agent or such other Entity designated by the Commission as Disbursing Agent. A Disbursing  
22 Agent shall not be required to provide any bond, surety or other security for the performance of  
23 its duties, unless otherwise ordered by the Bankruptcy Court; and, in the event that a Disbursing  
24 Agent is so otherwise ordered, all costs and expenses of procuring any such bond, surety or other  
25 security shall be borne by the Debtor.

26 Subject to Bankruptcy Rule 9010, all distributions under the Commission's Plan shall be  
27 made (i) to the holder of each Allowed Claim or Equity Interest at the address of such holder as  
28 listed on the Debtor's Bankruptcy Schedules as of the Distribution Record Date, unless the

1 Debtor or, on and after the Effective Date, the Reorganized Debtor, has been notified in writing  
2 of a change of address, including, without limitation, by the filing of a timely proof of Claim or  
3 Equity Interest by such holder that provides an address for such holder different from the address  
4 reflected on the Debtor's Bankruptcy Schedules, or (ii) pursuant to the terms of a particular  
5 indenture of the Debtor or in accordance with other written instructions of a trustee under such  
6 indenture.

7 As of the close of business on the Distribution Record Date, the claims register and  
8 records of the stock transfer agent shall be closed, and there shall be no further changes in the  
9 record holder of any Claim or Equity Interest. The Debtor shall have no obligation to recognize  
10 any transfer of any Claim or Equity Interest occurring after the Distribution Record Date. The  
11 Debtor shall instead be authorized and entitled to recognize and deal for all purposes of the  
12 Commission's Plan with only those record holders stated on the claims register or the records of  
13 the stock transfer agent as of the close of business on the Distribution Record Date.

14 Any payment of Cash made by the Debtor pursuant to the Commission's Plan shall, at the  
15 Debtor's option, be made by check drawn on a domestic bank or wire transfer. Except as  
16 otherwise set forth in the Commission's Plan, payments and distributions to holders of Allowed  
17 Claims or Equity Interests on the Effective Date shall be made on the Effective Date, or as soon  
18 as practicable thereafter. Any payment or distribution required to be made under the  
19 Commission's Plan on a day other than a Business Day shall be made on the next succeeding  
20 Business Day.

21 All distributions under the Plan that are unclaimed for a period of one (1) year after  
22 distribution thereof shall be deemed unclaimed property under section 347(b) of the Bankruptcy  
23 Code and revested in the Debtor and any entitlement of any holder of any Claim or Equity  
24 Interest to such distributions shall be extinguished and forever barred.

25 **E. Timing of Distributions Under the Plan**

26 Except to the extent a holder of an Allowed Claim or Equity Interest has otherwise been  
27 paid all or a portion of such holder's Allowed Claim or Equity Interest prior to the Effective  
28 Date, each of the distributions specified in Article IV of the Plan with respect to each Allowed



1 Claim or Equity Interest will occur on the Effective Date, or as soon as practicable thereafter.  
2 Any payment or distribution required to be made under the Plan on a day other than a Business  
3 Day will be made on the next succeeding Business Day.

4 Pursuant to the Cash Collateral Order, the Debtor has paid and will continue to pay Post-  
5 Petition Interest to the holders of Allowed Claims in Classes 3 and 4a. In addition, the Debtor  
6 will make payments of Post-Petition Interest accruing on and after the Initial Calculation Date  
7 and through the last day of the last calendar quarter ending prior to the Effective Date, in arrears,  
8 in quarterly installments (or in the case of such first quarter following the applicable Initial  
9 Calculation Date for holders of Allowed Claims for which February 28, 2002 is the Initial  
10 Calculation Date, the four-month period from March 1, 2002 to June 30, 2002, such portion of a  
11 quarter) as follows: (i) on the first Business Day of the next calendar Quarter to the holders of  
12 Allowed Claims in Class 5 for Senior Indebtedness, the holders of Allowed Southern San  
13 Joaquin Valley Power Authority Bond Claims and the holders of Allowed Claims in Classes 4c,  
14 4f, 4g, and 11, and (ii) within thirty (30) days following the end of the calendar quarter to the  
15 remaining holders of Allowed Claims in Class 5 and the holders of Allowed Claims in Classes 1,  
16 2, 6, 7 and 10. Any Post-Petition Interest that accrues during the period commencing on the first  
17 day of the calendar quarter in which the Effective Date occurs and ending on the Effective Date  
18 will be paid on the Effective Date.

19 Pursuant to the Order approving the LC Bank Agreement, the Debtor will (i) within ten  
20 (10) days after the approval of the LC Bank Agreement and thereafter, make payments to (A) the  
21 Letter of Credit Issuing Banks of certain reasonable fees and expenses of professionals retained  
22 by the Letter of Credit Issuing Banks, and (B) the holders of Allowed Claims in Class 4e of the  
23 Forbearance, Extension and Letter of Credit Fees and (ii) within ten (10) days after the  
24 Confirmation Date and thereafter, pay to the holders of Allowed Claims in Class 4e the  
25 outstanding reimbursement claims under the applicable Reimbursement Agreements with respect  
26 to Letter of Credit draws for the payment of interest on the related series of Letter of Credit  
27 Backed PC Bonds, together with accrued and unpaid interest due thereon at the non-default rate  
28 to the extent provided in the applicable Reimbursement Agreement.

1 Pursuant to the Settlement Order and the Settlement and Support Agreement, the accrual  
2 and payment of Post-Petition Interest shall terminate if (i) the Debtor is determined by a Final  
3 Order of the Bankruptcy Court to be insolvent (on a balance sheet basis), with such interest  
4 accrual termination effective as of the date of insolvency, as determined by the Bankruptcy  
5 Court, (ii) upon conversion of the Chapter 11 Case to a case under chapter 7; provided that there  
6 is not a subsequent determination of the Bankruptcy Court that there are assets of sufficient value  
7 to pay Post-Petition Interest on the applicable Allowed Claims. In circumstances where accrual  
8 and payment of Post-Petition Interest terminates, any payments of Post-Petition Interest may be  
9 recharacterized and treated as partial payment of the principal amount of the applicable Allowed  
10 Claims.

11 Except as set forth in Sections 4.2(a) and 4.2(b) of the Plan and except to the extent a  
12 holder of an Allowed Claim or Equity Interest has otherwise been paid all or a portion of such  
13 holder's Allowed Claim or Equity Interest prior to the Effective Date, each of the distributions  
14 specified in Article IV of the Plan with respect to each Allowed Claim or Equity Interest will  
15 (i) occur on the later of the Effective Date and the date such Allowed Claim or Equity Interest  
16 becomes an Allowed Claim or Equity Interest, or as soon as practicable thereafter, and (ii) be in  
17 full and complete settlement, satisfaction and discharge of such Allowed Claim or Equity  
18 Interest.

19 **F. Treatment of Executory Contracts and Unexpired Leases**

20 The Bankruptcy Code grants the Debtor the power, subject to the approval of the  
21 Bankruptcy Court, to assume or reject executory contracts and unexpired leases. If an executory  
22 contract or unexpired lease is rejected, the counterparty to the agreement may file a claim for  
23 damages incurred by reason of the rejection. In the case of rejection of leases of real property,  
24 such damage claims are subject to certain limitations imposed by the Bankruptcy Code.

25 Pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, all executory  
26 contracts and unexpired leases that exist between the Debtor and any Person or Governmental  
27 Entity shall be deemed assumed by the Debtor, as of the Effective Date, except that any  
28 executory contract or unexpired lease shall be deemed rejected by the Debtor as of the Effective

1 Date (i) that has been rejected pursuant to a Final Order of the Bankruptcy Court entered prior to  
2 the Confirmation Date, (ii) as to which a motion for approval of the rejection of such executory  
3 contract or unexpired lease has been filed and served prior to the Confirmation Date or (iii) that  
4 is set forth in Schedule 6.1(a)(i) of PG&E's Plan Supplement (executory contracts) (which  
5 Schedule is amended under the Plan to include the Existing Tax Sharing Agreement) or Schedule  
6 6.1(a)(ii) of PG&E's Plan Supplement (unexpired leases);<sup>38</sup> provided, however, that the Debtor  
7 reserves the right, on or prior to the conclusion of the Confirmation Hearing, to amend  
8 Schedules 6.1(a)(i) and 6.1(a)(ii) to the Plan Supplement to delete any executory contract or  
9 unexpired lease therefrom or to add any executory contract or unexpired lease thereto, in which  
10 event such executory contract(s) or unexpired lease(s) shall be deemed to be assumed by the  
11 Debtor or rejected, as the case may be, as of the Effective Date. The Debtor will give notice of  
12 any such amendment to each counterparty to any executory contract or unexpired lease the status  
13 of which is changed as a result of the amendment (i.e., any executory contract which is to be  
14 assumed or rejected as a result of the amendment) and to the Commission. If the counterparty  
15 opposes such proposed amendment, the Debtor and the Commission (provided the Commission's  
16 Plan reflects such amendment) will make all reasonable efforts to provide such counterparty a  
17 reasonable opportunity under the circumstances to object prior to confirmation of the  
18 Commission's Plan, and to the extent that such counterparty has the right to vote on the  
19 Commission's Plan, or becomes entitled to vote on the Plan as a result of the amendment to  
20 Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement, to provide such counterparty a  
21 reasonable amount of time to cast a Ballot to accept or reject the Commission's Plan and indicate  
22 its preference for the Commission's Plan or the PG&E Plan, or to amend its Ballot. The listing  
23 of a document on Schedules 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement will not constitute  
24 an admission by the Debtor or the Commission that such document is an executory contract or an  
25 unexpired lease or that the Debtor has any liability thereunder. Notwithstanding anything to the

26 \_\_\_\_\_  
27 <sup>38</sup> A copy of PG&E's Plan Supplement can be obtained through the "Pacific Gas & Electric Company  
28 <http://www/canb.uscourts.gov>. PG&E's Plan Supplement is listed under docket number 4579.

1 contrary, the Debtor has waived its right to make amendments pursuant to this Section 6.1(a)  
2 with respect to the assumption of the PG&E-Western Area Power Administration Contract  
3 2948A and related contracts, as described in Exhibit G to PG&E's Disclosure Statement.

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

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

22 Except as provided in Section 6.1 of the Plan, all savings, health care, severance,  
23 performance-based cash incentive, retention, employee welfare benefit, life insurance, disability  
24 and other similar plans and agreements of the Debtor are treated as executory contracts under the  
25 Plan and shall, on the Effective Date, be deemed assumed by the Debtor in accordance with  
26 section 365(a) and 1123(b)(2) of the Bankruptcy Code, and any defaults thereunder shall be  
27 cured as provided in Section 6.4 of the Plan. With respect to the Debtor's Retirement Plan, the  
28 Debtor affirms and agrees that it is and will continue to be the contributing sponsor of the

1 Retirement Plan, as defined under 29 U.S.C. § 1301(a)(13) and 29 C.F.R. § 4001.2, or a member  
2 of the contributing sponsor's controlled group, as defined under 29 U.S.C. § 1302(a)(14) and 29  
3 C.F.R. § 4001.2. As a contributing sponsor (or member of the controlled group) of the  
4 Retirement Plan, the Debtor intends to fund the Retirement Plan in accordance with the  
5 minimum funding standards under ERISA, 29 U.S.C. § 1082, pay all required PBGC insurance  
6 premiums, 29 U.S.C. § 1307, and comply with all requirements of the Retirement Plan and  
7 ERISA. The Retirement Plan is a defined benefit pension plan insured by the Pension Benefit  
8 Guaranty Corporation under Title IV of ERISA, 29 U.S.C. §§ 1301-1461. The Retirement Plan  
9 is subject to the minimum funding requirements of ERISA, 29 U.S.C. § 1084, and section 412 of  
10 the Internal Revenue Code, 26 U.S.C. § 412. No provision of or proceeding within the Debtor's  
11 reorganization proceedings, the Commission's Plan, nor the Confirmation Order shall in any way  
12 be construed as discharging, releasing or relieving the Debtor, Reorganized Debtor, or any other  
13 party in any capacity, from any liability with respect to the Retirement Plan or any other defined  
14 benefit pension plan under any law, governmental policy or regulatory provision. PBGC and the  
15 Retirement Plan shall not be enjoined or precluded from enforcing liability resulting from any of  
16 the provisions of the Commission's Plan or its confirmation.

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

24 Entry of the Confirmation Order shall, subject to and upon the occurrence of the  
25 Effective Date, constitute (i) the approval, pursuant to sections 365(a) and 1123(b)(2) of the  
26 Bankruptcy Code, of the assumption of the executory contracts and unexpired leases assumed  
27 pursuant to Section 6.1 of the Commission's Plan, (ii) the extension of time, pursuant to  
28 section 365(d)(4) of the Bankruptcy Code, within which the Debtor may assume or reject the

1 unexpired leases of non-residential property specified in Section 6.1 of the Commission's Plan  
2 through the date of entry of the Confirmation Order, and (iii) pursuant to sections 365(a) and  
3 1123(b)(2) of the Bankruptcy Code, the approval of the rejection of the executory contracts and  
4 unexpired leases rejected pursuant to Section 6.1 of the Commission's Plan.

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

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

19 The obligations under (1) the 1991 Settlement Agreement between NCPA and PG&E in a  
20 NRC proceeding, implementing the Statement of Commitments accompanying the letter from  
21 PG&E to the U.S. Department of Justice of April 30, 1976 (the "1991 Settlement Agreement"),  
22 (2) the letter from PG&E to the U.S. Department of Justice of April 30, 1976, to the extent that it  
23 represents obligations (the "1976 Letter") and (3) the antitrust license conditions included in the  
24 Diablo Canyon Nuclear Power Plant NRC Licenses (the "License Conditions") (collectively, the  
25 1991 Settlement Agreement, the 1976 Letter and the License Conditions are referred to herein as  
26 the "Settlement and Stanislaus Commitments") shall remain in effect and pass through the  
27 Chapter 11 Case unimpaired and unaffected so that the Debtor and Reorganized Debtor are  
28 obligated for the full performance, and shall be liable for the nonperformance, of the Settlement

1 and Stanislaus Commitments. Under the Plan, the Debtor and Reorganized Debtor shall assume  
2 the 1991 Settlement Agreement.

3 Also, on the Effective Date, the Reorganized Debtor shall continue to offer the City of  
4 Palo Alto gas transmission and storage services on terms and conditions that provide full parity  
5 of treatment with those provided by the Reorganized Debtor to its own retail gas distribution  
6 functions, including, but not limited to, the opportunity to reserve, in advance of any open-season  
7 process, a defined amount of transmission and storage capacity in any amount up to the amount  
8 sufficient to meet the City of Palo Alto's projected Abnormal Peak Day (the "APD")  
9 requirements, subject to applicable limits on the amount of each such form of capacity.

10 Similarly, on the Effective Date, "vintage rates" for the Redwood Path capacity currently held by  
11 the City of Palo Alto (6,148 Dth/day) shall continue to be available to the City of Palo Alto for as  
12 long as vintage rates are available to any core customer served by Reorganized Debtor.

13 **G. Provisions for Treatment of Disputed Claims**

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

28

1 To the extent a Disputed Claim becomes an Allowed Claim, such Allowed Claim will be  
2 satisfied in the same manner as all other Allowed Claims of the same Class. In addition, the  
3 holder of such a Claim will receive Post-Petition Interest (to the extent such holder is entitled to  
4 Post-Petition Interest under the Plan). From and after the Effective Date, such Disputed Claim  
5 will earn interest at the same rate earned on the Cash deposited in escrow.

6 The escrow(s) will be terminated by the Reorganized Debtor when all distributions from  
7 the escrow account(s) have been made in accordance with the Commission's Plan. If any Cash  
8 remains in an escrow account after all Disputed Claims for which such escrowed property is  
9 being held have been resolved and distributions made in respect thereof, such Cash shall revert to  
10 and become property of the Reorganized Debtor. In determining the aggregate amount necessary  
11 to fund any escrow account(s), the Debtor may deposit the estimated allowable amount of any  
12 Disputed Claim, as determined by the Bankruptcy Court. Any such escrow(s) established  
13 pursuant to Section 5.4(h) of the Plan and described here will be subject to the continuing  
14 jurisdiction of the Bankruptcy Court.

15 If the amount of Cash deposited into the escrow(s) is insufficient to make the required  
16 payments once certain Disputed Claims become Allowed Claims, then the Reorganized Debtor  
17 will pay the holder of such Allowed Claim the Cash necessary to satisfy the shortfall. Any  
18 deficiency in the amount of Cash deposited into the escrow(s) shall not limit the Reorganized  
19 Debtor's obligation to satisfy Disputed Claims which subsequently become Allowed Claims, and  
20 the Reorganized Debtor shall remain liable to satisfy such Allowed Claims pursuant to the  
21 Commission's Plan.

22 **H. Objections to and Resolution of Administrative Expense Claims and Claims**

23 Except as to applications for allowance of compensation and reimbursement of  
24 Professional Compensation and Reimbursement Claims under sections 330 and 503 of the  
25 Bankruptcy Code, the Reorganized Debtor shall, on and after the Confirmation Date, have the  
26 right to make and file objections to Administrative Expense Claims and Claims. In addition,  
27 pursuant to the Plan, the Commission will, on and after the Confirmation Date, have full party-  
28 in-interest status to make and file objection to the Administrative Expense Claims and Claims



1 and to appear and be heard with respect thereto. Except as to applications for allowance of  
2 compensation and reimbursement of Professional Compensation and Reimbursement Claims  
3 under sections 330 and 503 of the Bankruptcy Code, and with respect to objections filed by the  
4 Commission, on and after the Effective Date, the Reorganized Debtor shall have the authority to  
5 compromise, settle, otherwise resolve or withdraw any objections to Administrative Expense  
6 Claims and Claims and compromise, settle or otherwise resolve Disputed Administrative  
7 Expense Claims and Disputed Claims without the approval of the Bankruptcy Court. Unless  
8 otherwise ordered by the Bankruptcy Court, (a) all objections to Claims (except for  
9 Administrative Expense Claims) shall be served and filed upon the holder of the Claim as to  
10 which the objection is made (and, as applicable, upon the Debtor, the Committee and the  
11 Commission) as soon as practicable, but in no event later than the Effective Date, and (b) all  
12 objections to Administrative Expense Claims shall be served and filed upon the holder of the  
13 Administrative Expense Claim as to which the objection is made (and, as applicable, upon the  
14 Debtor, the Committee and the Commission) as soon as practicable, but in no event later than  
15 ninety (90) days after the Effective Date.

16 **I. Payment of Trustee's, Issuer's and Certain Banks' Fees**

17 To the extent allowed by law and any underlying agreement, any unpaid fees and  
18 expenses accrued through the Confirmation Date (except for any unpaid fees and expenses  
19 previously disallowed by the Bankruptcy Court) of the Bond Trustees and the trustees under the  
20 Mortgage, and various indentures, including, but not limited to, the Southern San Joaquin Valley  
21 Power Authority Agreement (acting in their capacities as trustees and, if applicable, acting in  
22 their capacities as disbursing agents), the Issuer of the PC Bonds and their respective  
23 professionals, and Bank of America, N.A., in its capacity as administrative agent under the  
24 Revolving Line of Credit (including such administrative agent's attorney's fees), shall be paid by  
25 the Debtor within ten (10) days after the Confirmation Date. Any such fees and expenses  
26 accruing after the Confirmation Date shall be payable as provided in the applicable agreement  
27 providing for such payment, or, in the case of Bank of America, N.A., in its capacity as  
28 administrative agent under the Revolving Line of Credit, at least quarterly. Upon payment of

1 such fees and expenses, such Persons shall be deemed to have released their Liens securing  
2 payment of their fees and expenses for all fees and expenses accrued through the Effective Date.

3 **J. Conditions Precedent to Confirmation of the Commission's Plan**

4 The Commission's Plan shall not be confirmed by the Bankruptcy Court unless and until  
5 the following conditions shall have been satisfied:

6 (a) the Bankruptcy Court shall have entered an order or orders, which may be  
7 the Confirmation Order, approving the Commission's Plan, authorizing and directing the Debtor  
8 to execute, enter into and deliver the Plan, and to execute, implement and take all actions  
9 necessary or appropriate to give effect to the transactions contemplated by the Plan; and

10 (b) the Confirmation Order shall be, in form and substance, acceptable to the  
11 Commission.

12 **K. Conditions Precedent to Effectiveness of the Commission's Plan**

13 The Commission's Plan shall not become effective unless and until the following  
14 conditions shall have been satisfied or waived pursuant to Section 8.4 of the Commission's Plan:

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

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

18 (c) the Reorganized Debtor shall have consummated the sale of the  
19 Reorganized Debtor New Money Notes and the new Equity Interests as contemplated under the  
20 Plan and the proceeds thereof shall, in addition to the Debtor's available Cash, be sufficient to  
21 pay all Allowed Claims to be paid under the Plan and to fund the escrows for Disputed Claims;

22 (d) the Reorganized Debtor shall have obtained and established the Exit  
23 Facility;

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

27 (f) the Debtor shall dismiss the Rate Recovery Litigation with prejudice and  
28 the Debtor shall have executed and delivered to the Commission all pleadings and release

1 documents required by the Commission in connection with such dismissal, which shall be in  
2 form and substance satisfactory to the Commission;

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

5 (h) the Debtor shall have received all authorizations, consents, regulatory  
6 approvals, rulings, letters, no-action letters, opinions or documents that are necessary to  
7 implement the Plan including, without limitation, any and all Commission approvals and rulings  
8 necessary to implement the Plan; and

9 (i) the Plan shall not have been modified in a material way, including any  
10 modification pursuant to Section 11.10 of the Plan, since the Confirmation Date.

11 **As provided in Section 11.10 of the Commission's Plan, the Commission may waive**  
12 **one or more of the conditions precedent set forth in Section 8.2 of the Plan, provided,**  
13 **however, that the condition set forth in Section 8.2(g) of the Plan, may only be waived**  
14 **pursuant to a Final Order of the Bankruptcy Court obtained by a motion filed by the**  
15 **Commission and after notice and a hearing on not less than ten (10) days' notice to the**  
16 **Debtor, the Commission and the United States Trustee.**

17 In the event that one or more of the conditions to the Effective Date described above shall  
18 not have occurred or been waived on or before January 31, 2003 (or such later date as may  
19 hereafter be provided in an amended Section 8.2(a)), (a) the Confirmation Order shall be  
20 vacated, (b) no distributions under the Commission's Plan shall be made, (c) the Debtor and all  
21 holders of Claims and Equity Interests shall be restored to the status quo ante as of the day  
22 immediately preceding the Confirmation Date as though the Confirmation Order had never been  
23 entered, and (d) the Debtor's obligations with respect to Claims and Equity Interests shall remain  
24 unchanged and nothing contained in the Plan shall constitute or be deemed a waiver or release of  
25 any Claims or Equity Interests by or against the Debtor or any Person or Governmental Entity or  
26 to prejudice in any manner the rights of the Debtor or any Person or Governmental Entity in any  
27 further proceedings involving the Debtor; provided, however, that the amounts paid pursuant to  
28 Section 4.2(a) of the Commission's Plan on account of Post-Petition Interest may be

1 recharacterized as a payment upon the applicable Allowed Claims, in the Debtor's sole  
2 discretion, but the Debtor will not otherwise seek to recover such amounts.

3 **L. Implementation and Effect of Confirmation of the Commission's Plan**

4 On the Effective Date, except as otherwise transferred, sold or otherwise provided for in  
5 the Commission's Plan, the property of the Debtor's estate shall vest in the Reorganized Debtor.

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

11 Unless otherwise provided, all injunctions or stays provided for in the Chapter 11 Case  
12 under section 105 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation  
13 Date, shall remain in full force and effect in accordance with the terms of such injunctions.

14 Unless otherwise provided, the automatic stay provided under section 362 of the Bankruptcy  
15 Code shall remain in full force and effect until the Effective Date.

16 As of the Effective Date, any and all avoidance claims accruing to the Debtor under  
17 sections 502(d), 544, 545, 547, 548, 549, 550 and 551 of the Bankruptcy Code and not then  
18 pending, shall be extinguished. All other Causes of Action of the Debtor, other than those  
19 expressly released or dismissed with prejudice under the Plan, shall vest in the Reorganized  
20 Debtor.

21 **M. Discharge and Injunction**

22 The rights afforded under the Commission's Plan and the treatment of all Claims and  
23 Equity Interests under the Plan shall be in exchange for and in complete satisfaction, discharge  
24 and release of Claims and Equity Interests of any nature whatsoever, including any interest  
25 accrued on such Claims from and after the Petition Date, against the Debtor or any of its assets  
26 or properties. Except as otherwise provided in the Plan, as of the Effective Date (a) all such  
27 Claims against and Equity Interests in the Debtor shall be satisfied, discharged and released in  
28 full and (b) all Persons and Governmental Entities shall be precluded from asserting against the

1 Debtor, its successors, or its assets or properties any other or further Claims or Equity Interests  
2 based upon any act or omission, transaction or other activity of any kind or nature that occurred  
3 prior to the Confirmation Date.

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

1 **N. Voting**

2 **1. Voting of Claims.**

3 Each holder of an Allowed Claim or Equity Interest in an impaired Class of Claims or  
4 Equity Interests as of the Voting Record Date that is entitled to vote on the Commission's Plan  
5 pursuant to Article IV of the Plan shall be entitled to vote separately to accept or reject the Plan  
6 with regard to each impaired class of Claims or Equity Interests as provided in the Procedures  
7 Order. If the Debtor objects to a Claim, the Claim becomes a Disputed Claim. The holder of a  
8 Disputed Claim is not entitled to vote on the Plan unless the Debtor or the holder of the Disputed  
9 Claim obtains an order of the Bankruptcy Court estimating the amount of the Disputed Claim for  
10 voting purposes. If the Debtor does not object to a Claim prior to the date on which the  
11 Disclosure Statement and the Ballot are transmitted to creditors for voting, the holder of such  
12 Claim will be permitted to vote on the Commission's Plan in the full amount of the Claim as  
13 filed.

14 **2. Elimination of Vacant Classes.**

15 Any Class of Claims that is not occupied as of the date of commencement of the  
16 Confirmation Hearing by an Allowed Claim or a Claim temporarily allowed under Bankruptcy  
17 Rule 3018 or as to which no vote is cast shall be deemed eliminated from the Commission's Plan  
18 for purposes of voting to accept or reject the Plan and for purposes of determining acceptance or  
19 rejection of the Plan by such Class pursuant to section 1129(a)(8) of the Bankruptcy Code.

20 **3. Nonconsensual Confirmation.**

21 If one or more classes of Claims or Equity Interests entitled to vote shall not accept the  
22 Commission's Plan by the requisite statutory majorities provided in section 1126(c) of the  
23 Bankruptcy Code, the Commission reserves the right to amend the Plan in accordance with  
24 Section 11.10 of the Plan or undertake to have the Bankruptcy Court confirm the Plan under  
25 section 1129(b) of the Bankruptcy Code, or both. With respect to any impaired Classes of  
26 Claims or Equity Interests that may be deemed to reject the Plan, the Commission shall request  
27 the Bankruptcy Court to confirm the Plan under section 1129(b) of the Bankruptcy Code. See  
28

1 Section VII.C.2 of this Disclosure Statement for more information regarding nonconsensual  
2 confirmation.

3 **O. Summary Of Other Provisions Of The Plan**

4 The following subsections summarize certain other significant provisions of the  
5 Commission's Plan.

6 **1. Amendment or Modification of the Plan.**

7 Pursuant to Section 11.10(a) of the Plan, alterations, amendments or modifications of or  
8 to the Commission's Plan may be proposed in writing by the Commission at any time prior to the  
9 Confirmation Date, provided that the Plan, as altered, amended or modified, satisfies the  
10 conditions of sections 1122 and 1123 of the Bankruptcy Code and the Commission shall have  
11 complied with section 1125 of the Bankruptcy Code. The Plan may be altered, amended or  
12 modified by the Commission at any time after the Confirmation Date and before substantial  
13 consummation of the Plan, provided that the Plan, as altered, amended or modified, satisfies the  
14 requirements of sections 1122 and 1123 of the Bankruptcy Code and the Bankruptcy Court, after  
15 notice and a hearing, confirms the Plan, as altered, amended or modified, under section 1129 of  
16 the Bankruptcy Code and the circumstances warrant such alterations, amendments or  
17 modifications. A holder of a Claim or Equity Interest that has accepted the Plan shall be deemed  
18 to have accepted the Plan, as altered, amended or modified, if the proposed alteration,  
19 amendment or modification does not materially and adversely change the treatment of such  
20 holder's Claim or Equity Interest.

21 Pursuant to Section 11.10(b) of the Plan, the Commission and the Committee shall  
22 negotiate in good faith any and all material amendments or modifications to the Plan or in  
23 connection with any proposed waiver concerning any provision of the Plan, including, but not  
24 limited to, the waiver of any conditions to confirmation of the Plan or to the Effective Date of the  
25 Plan. If the Commission and the Committee do not agree upon any such proposed amendments,  
26 modifications or waivers, then the Commission shall only implement such amendments,  
27 modifications or waivers pursuant to a Final Order of the Bankruptcy Court obtained by motion  
28 by the Commission and after notice and a hearing on not less than ten (10) days' notice to the

1 Debtor, the Committee and the United States Trustee. The provisions of this paragraph shall  
2 apply to all terms and conditions hereof, including, but not limited to, Sections 8.1, 8.2, 8.4,  
3 11.10 and 11.12 of the Plan. Notwithstanding the foregoing provisions of Section 11.10(b) of  
4 the Plan, the condition in Section 8.2(g) (investment grade rating) may only be waived pursuant  
5 to a Final Order of the Bankruptcy Court obtained by motion of the Commission and after notice  
6 and a hearing on not less than ten (10) days' notice to the Debtor, the Committee and the United  
7 States Trustee.

8 **2. Cancellation of Existing Securities and Agreements.**

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

18 **3. Revocation or Withdrawal of the Commission's Plan.**

19 The Commission reserves the right to revoke or withdraw the Plan prior to the  
20 Confirmation Date. If the Commission revokes or withdraws the Plan prior to the Confirmation  
21 Date, then the Plan shall be deemed null and void. In such event, nothing contained in the Plan  
22 shall constitute or be deemed a waiver or release of any claims by or against the Debtor or any  
23 other Person or Governmental Entity, including the Commission, or to prejudice in any manner  
24 the rights of the Debtor or any Person or Governmental Entity, including the Commission, in any  
25 further proceedings involving the Debtor.



1           **4. Termination of the Committee.**

2           Pursuant to the Commission's Plan, the appointment of the Committee shall terminate on  
3 the Effective Date, subject to continuation for specific purposes by a Final Order of the  
4 Bankruptcy Court.

5           **5. Effectuating Documents and Further Transactions.**

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

11           **6. Release of Certain Parties.**

12           Pursuant to the Commission's Plan, as of the Effective Date, and subject to the release by  
13 the Releasees described below, the Debtor shall release all of the Releasees from any and all  
14 Causes of Action held by, assertable on behalf of or derivative of the Debtor, in any way relating  
15 to the Debtor, the Debtor-in-Possession, the Chapter 11 Case, the Plan, negotiations regarding or  
16 concerning the Plan and the ownership, management and operation of the Debtor; provided,  
17 however, that the foregoing shall not operate as a waiver of or release from any Causes of Action  
18 arising out of any express contractual obligation owing by any former director, officer or  
19 employee to the Debtor or any reimbursement obligation of any former director, officer or  
20 employee with respect to a loan or advance made by the Debtor to such former director, officer  
21 or employee and is not a waiver of or release for any professionals retained in connection with  
22 this Chapter 11 Case from claims by their respective clients.

23           Pursuant to the Plan, as of the Effective Date, the Debtor releases the Commission, its  
24 present and former commissioners in their official capacities and their respective successors, the  
25 State of California and its officers and commissioners in their official capacities and their  
26 respective successors, as well as the Commission's and the State's present and former  
27 employees, advisors, consultants and professionals from any and all Causes of Action held by,  
28 assertable on behalf of or derivative of the Debtor, in any way relating to the Debtor as Debtor-

1 in-Possession, the Chapter 11 Case, the Plan, negotiations regarding or concerning the Plan and  
2 the ownership, management and operation of the Debtor as Debtor-in-Possession.

3 In consideration for release of the Releasees described above and other valuable  
4 consideration, as of the Effective Date, each of the Releasees, at its option, generally releases the  
5 Debtor and the Debtor-in-Possession and the Reorganized Debtor, in each case in any capacity,  
6 from any and all Causes of Action held by, assertable on behalf of or derivative of such  
7 Releasee, in any way relating to the Debtor, the Debtor-in-Possession, the Chapter 11 Case, the  
8 Plan, negotiations regarding or concerning the Plan and the ownership, management and  
9 operation of the Debtor. The release by the Debtor pursuant to Section 11.4(a) of the Plan  
10 described above will be provided only to Releasees who execute and deliver to the Debtor a  
11 release as provided in Section 11.5 of the Plan, as described here, and in a form acceptable to the  
12 Debtor.

### 13 **7. Exculpation.**

14 Pursuant to the Commission's Plan, as of and subject to the occurrence of the  
15 Confirmation Date, (a) the Commission shall have been deemed to have negotiated the Plan in  
16 good faith, (b) the Commission shall be deemed to have solicited acceptances of the Plan in good  
17 faith and in compliance with the applicable provisions of the Bankruptcy Code, including,  
18 without limitation section 1125(a) of the Bankruptcy Code, and any applicable non-bankruptcy  
19 law, rule or regulation governing the adequacy of disclosure in connection with such solicitation,  
20 and (c) the Commission and its individual Commissioners, in their official capacities, and the  
21 Commission's agents, employees, advisors and attorneys shall be deemed to have participated in  
22 good faith and in compliance with the applicable provisions of the Bankruptcy Code in  
23 connection with the offer and issuance of any securities under the Plan, and therefore, neither the  
24 Commission nor its individual commissioners nor any of the Commission's agents, employees,  
25 advisors and professionals shall have or incur any liability to any holder of a Claim or Equity  
26 Interest or other party in interest for any act or omission in connection with, related to, or arising  
27 out of, the Chapter 11 Case, negotiations regarding or concerning the Plan, the pursuit of  
28 confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the

1 property to be distributed under the Plan, except for willful misconduct or gross negligence, and,  
2 in all respects, the Commission and its individual commissioners, and the Commission's agents  
3 employees, advisors and professionals shall be entitled to rely upon the advice of counsel with  
4 respect to their duties and responsibilities under the Plan.

5 **8. Corporate Governance; Articles of Incorporation and Bylaws.**

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

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

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

24 **9. Commission's Plan Supplement.**

25 Pursuant to the Plan, the following documents will be contained in the Commission's  
26 Plan Supplement, which shall be filed with the Clerk of the Bankruptcy Court at least ten  
27 (10) days prior to the Confirmation Date:

- 28
- The Reorganized Debtor's amended Articles of Incorporation and Bylaws.

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

7 **10. Retention of Jurisdiction.**

8 As of and subject to the occurrence of the Confirmation Date, the Commission shall be  
9 bound by the Confirmation Order and the Confirmation Order shall be enforceable against the  
10 Commission notwithstanding the Commission’s and the State of California’s objections and  
11 defenses based upon the Eleventh Amendment to the United States Constitution or related  
12 principles of sovereign immunity or otherwise. After the Confirmation Date, the Bankruptcy  
13 Court shall retain jurisdiction over all matters arising out of, or related to, the Chapter 11 Case  
14 and the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy  
15 Code and for, among other things, the following purposes:

- 16 (a) to hear and determine matters related to the Commission’s Plan;
- 17 (b) to hear and determine applications for the assumption or rejection of  
18 executory contracts or unexpired leases, if any are pending, and the allowance of cure amounts  
19 and Claims resulting therefrom;
- 20 (c) to hear and determine any and all adversary proceedings, applications and  
21 contested matters;
- 22 (d) to hear and determine any objection to Administrative Expense Claims or  
23 Claims;
- 24 (e) to enter and implement such orders as may be appropriate in the event the  
25 Confirmation Order is for any reason stayed, revoked, modified or vacated;
- 26 (f) to issue such orders in aid of execution and consummation of the Plan, to  
27 the extent authorized by section 1142 of the Bankruptcy Code;
- 28

1 (g) to consider any amendments to or modifications of the Plan, to cure any  
2 defect or omission, or to reconcile any inconsistency in any order of the Bankruptcy Court,  
3 including, without limitation, the Confirmation Order;

4 (h) to hear and determine all applications for compensation and  
5 reimbursement of expenses of professionals under sections 330, 331 and 503(b) of the  
6 Bankruptcy Code;

7 (i) to hear and determine disputes arising in connection with the  
8 interpretation, implementation or enforcement of the Plan and/or the Confirmation Order;

9 (j) to hear and determine proceedings to recover assets of the Debtor and  
10 property of the Debtor's estate, wherever located;

11 (k) to hear and determine matters concerning state, local and federal taxes in  
12 accordance with sections 346, 505 and 1146 of the Bankruptcy Code;

13 (l) to hear and determine matters concerning the escrow(s), if any, established  
14 pursuant to Section 5.4(h) of the Plan;

15 (m) to hear any other matter not inconsistent with the Bankruptcy Code; and

16 (n) to enter a final decree closing the Chapter 11 Case.

17 **11. Exemption of Transfer Taxes.**

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

1 be subject to any stamp, real estate transfer, documentary transfer, mortgage recording, sales, use  
2 or other similar tax.

3 **12. Fees and Expenses.**

4 Upon the Bankruptcy Court's entry of a Final Order approving any application by the  
5 Commission under section 503(b)(3) of the Bankruptcy Code and/or the Commission's legal and  
6 financial advisors under section 503(b)(4) of the Bankruptcy Code, the amounts authorized for  
7 payment thereunder shall be treated as an Administrative Expense Claim and a Professional  
8 Compensation and Reimbursement Claim, respectively, and paid in accordance with Sections 2.1  
9 and 2.2 of the Plan, respectively. Such 503(b) applications would include fees and expenses  
10 incurred in connection with the preparation and prosecution of the Commission's Plan, and the  
11 fees and expenses incurred in connection with transactions contemplated thereby, including the  
12 issuance and sale of securities of the Reorganized Debtor.

13 Pursuant to the Plan, from and after the Confirmation Date, the Reorganized Debtor shall,  
14 in the ordinary course of business and without the necessity for any approval by the Bankruptcy  
15 Court, pay the reasonable fees and expenses of professional Persons thereafter incurred,  
16 including, without limitation, any fees and expenses incurred by the Commission's professionals  
17 in connection with the implementation and consummation of the Plan; provided, however, that  
18 any dispute regarding the reasonableness of such fees and expenses shall be decided by the  
19 Bankruptcy Court.

20 **13. Payment of Statutory Fees.**

21 All fees payable pursuant to section 1930 of title 28, United States Code, as determined  
22 by the Bankruptcy Court at the Confirmation Hearing, shall be paid on or before the Effective  
23 Date.

24 **14. Severability.**

25 In the event that the Bankruptcy Court determines that any provision in the  
26 Commission's Plan is invalid, void or unenforceable, such provision shall be invalid, void or  
27 unenforceable with respect to the holder or holders of such Claims or Equity Interests as to  
28 which the provision is determined to be invalid, void or unenforceable. The invalidity, voidness

1 or unenforceability of any such provision shall in no way limit or affect the enforceability and  
2 operative effect of any other provision of the Plan.

3 **15. Binding Effect.**

4 From and after the Confirmation Date, the Plan shall be binding upon and inure to the  
5 benefit of the Commission, the Debtor, the Reorganized Debtor, the holders of Claims and  
6 Equity Interests, other parties in interest, and their respective successors and assigns.

7 **16. Governing Law.**

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

13 **17. Withholding and Reporting Requirements.**

14 Except as otherwise provided by the Commission's Plan, in connection with the  
15 consummation of the Plan, the Debtor shall comply with all applicable withholding and reporting  
16 requirements imposed by any federal, state, local or foreign taxing authority and all distributions  
17 hereunder shall be subject to any such withholding and reporting requirements.

18 **18. Allocation of Plan Distributions.**

19 All distributions in respect of Allowed Claims will be allocated first to the portion of  
20 such Claims representing interest (as determined for federal income tax purposes), second to the  
21 original principal amount of such Claims (as determined for federal income tax purposes), and  
22 any excess to the remaining portion of such Claims.

23 **19. Minimum Distributions.**

24 No payment of Cash less than one hundred dollars (\$100) shall be made by the Debtor to  
25 any holder of an Allowed Claim or equity interest unless a request therefor is made in writing to  
26 the Debtor.

27  
28

1           **20. Subrogation Rights.**

2           Nothing in the Commission’s Plan shall affect (a) the subrogation rights of any surety, to  
3 the extent applicable or available, which, if available or applicable, shall remain in full force and  
4 effect, or (b) the rights of the Debtor to object, pursuant to the Bankruptcy Code to the existence  
5 of such subrogation rights.

6           **21. Corporate Action.**

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

15           **22. Notices.**

16           All notices, requests and demands to or upon the Debtor, the Commission, the Committee  
17 or the United States Trustee to be effective shall be in writing and, unless otherwise expressly  
18 provided herein, shall be deemed to have been duly given or made when actually delivered or, in  
19 the case of notice by facsimile transmission, when received and telephonically confirmed,  
20 addressed as follows:

21           *If to the Debtor:*  
22           Pacific Gas and Electric Company  
23           77 Beale Street  
24           P.O. Box 7442  
25           San Francisco, California 94120  
26           Attn: General Counsel  
27           Telephone: (415) 973-7000  
28           Facsimile: (415) 973-5320



1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

*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

1 *If to the Trustee:*

2 The Office of the United States Trustee  
3 250 Montgomery Street, Suite 1000  
4 San Francisco, California 94104  
5 Attn: Stephen L. Johnson  
6 Telephone: (415) 705-3333  
7 Facsimile: (415) 705-3379

8 **VII. CONFIRMATION AND CONSUMMATION PROCEDURE**

9 Under the Bankruptcy Code, the following steps must be taken to confirm the  
10 Commission's Plan:

11 **A. Solicitation Of Votes**

12 In accordance with sections 1126 and 1129 of the Bankruptcy Code, the Claims and  
13 Equity Interests in Classes 4c, 4e, 5, 6, 7, 11 and 14 are impaired, and the holders of Allowed  
14 Claims in such Class are entitled to vote to accept or reject the Commission's Plan. If the Debtor  
15 objects to a Claim, the Claim becomes a Disputed Claim. A Disputed Claim is not entitled to  
16 vote on the Plan unless the Debtor or the holder of the Disputed Claim obtains an order of the  
17 Bankruptcy Court estimating the amount of the Disputed Claim for voting purposes. If the  
18 Debtor does not object to a Claim prior to the date on which the Disclosure Statement and the  
19 Ballot are transmitted to creditors for voting, the holder of such Claim will be permitted to vote  
20 on the Plan in the full amount of the Claim as filed. Claims and Equity Interests in Classes 1, 2,  
21 3, 4a, 4b, 4d, 4f, 4g, 8, 10, 12 and 13<sup>39</sup> are unimpaired. Accordingly, the holders of Allowed  
22 Claims and Equity Interests in each of such Classes are conclusively presumed to have accepted  
23 the Plan, and the solicitation of acceptances with respect to such Classes is not required under  
24 section 1126(f) of the Bankruptcy Code.

25 <sup>39</sup> While the Commission believes that Class 13 is unimpaired by the Plan, certain holders of Preferred Stock  
26 Equity Interests believe that Class 13 is impaired by the Plan. To avoid delaying the voting process,  
27 holders of Preferred Stock Equity Interests are being solicited to vote on the Plan as a precautionary  
28 measure so that the voting results will be available if it is determined by the Bankruptcy Court that such  
Class is impaired. Allowing the holders of Preferred Stock Equity Interests to vote shall be without  
prejudice to the Commission's contention that this Class is unimpaired, and the Commission reserves the  
right to contest any objection to the unimpaired status of this Class.

1 The Bankruptcy Code defines “acceptance” of a plan by a class of claims as acceptance  
2 by creditors in such class holding at least two-thirds (2/3) in dollar amount and more than one-  
3 half (1/2) in number of the allowed claims in such class casting ballots for acceptance or  
4 rejection of the plan. The Bankruptcy Code defines “acceptance” of a plan by a class of equity  
5 interests as acceptance by holders in such class holding at least two-thirds (2/3) in amount of the  
6 allowed interests casting ballots for acceptance or rejection of the plan.

7 A vote may be disregarded if the Bankruptcy Court determines, after notice and a  
8 hearing, that acceptance or rejection was not solicited or procured in good faith or in accordance  
9 with the provisions of the Bankruptcy Code.

10 **B. The Confirmation Hearing**

11 The Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a confirmation  
12 hearing. The Confirmation Hearing in respect of the Plan will begin with an initial status  
13 conference to be held on August 1, 2002, commencing at 9:30 a.m., Pacific Time, before the  
14 Honorable Dennis Montali, United States Bankruptcy Judge, at the United States Bankruptcy  
15 Court for the Northern District of California, 235 Pine Street, San Francisco, California 94014,  
16 or such other location as the Bankruptcy Court directs. The Confirmation Hearing may be  
17 continued from time to time by the Bankruptcy Court without further notice except for the  
18 announcement of the continuation date made at the Confirmation Hearing or at any subsequent  
19 continued Confirmation Hearing. Any objection to confirmation must be made in writing and  
20 specify in detail the name and address of the objector, all grounds for the objection and the  
21 amount of the Claim or securities of the Debtor held by the objector. Any such objection must  
22 be filed with the Bankruptcy Court and served so that it is received by the Bankruptcy Court with  
23 a copy to chambers, together with proof of service thereof, and served upon the following parties  
24 so that it is received by them on or before July 17, 2002 at 4:00 p.m., Pacific Time:

25 California Public Utilities Commission  
26 505 Van Ness Ave.  
27 San Francisco, California 94102  
28 Attn: Gary M. Cohen

1 Paul, Weiss, Rifkind, Wharton & Garrison  
1285 Avenue of the Americas  
2 New York, New York 10019-6064  
Attn: Alan W. Kornberg

3 The Office of the United States Trustee  
250 Montgomery Street, Suite 1000  
4 San Francisco, California 94104  
Attn: Stephen L. Johnson

5  
6 Milbank, Tweed, Hadley & McCloy LLP  
601 South Figueroa Street, 30<sup>th</sup> Floor  
7 Los Angeles, California 90017  
Attn: Paul S. Aronzon  
8 Telephone: (213) 892-4000  
9 Facsimile: (213) 629-5063

10 Objections to confirmation of the Commission's Plan are governed by Bankruptcy Rule 9014.

11 **UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED IT**  
12 **MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.**

13 **C. Confirmation**

14 At the Confirmation Hearing, the Bankruptcy Court will confirm the Commission's Plan  
15 only if all of the requirements of section 1129 of the Bankruptcy Code are met. Among the  
16 requirements for confirmation of a plan are that the plan is (i) accepted by all impaired classes of  
17 claims and equity interests or, if rejected by an impaired class, that the plan "does not  
18 discriminate unfairly" and is "fair and equitable" as to such class, (ii) feasible and (iii) in the  
19 "best interests" of creditors and shareholders that are impaired under the plan.

20 **1. Acceptance.**

21 The following classes of Claims and Equity Interests are impaired, will receive  
22 distributions under the Commission's Plan and are entitled to vote to accept or reject the  
23 Commission's Plan: Class 4c – MBIA Claims, 4e – Letter of Credit Bank Claims, Class 5 –  
24 General Unsecured Claims, Class 6 – ISO, PX and Generator Claims, Class 7 – ESP Claims,  
25 Class 11 – QUIDS Claims and Class 14 – Common Stock Equity Interests. Any holder of  
26 Claims and Equity Interests that votes in favor of both Competing Plans, may also express a  
27 preference for the Commission's or PG&E's Plan.

1 The following classes of Claims and Equity Interests are unimpaired and, therefore, are  
2 conclusively presumed to have accepted the Plan: Class 1 – Other Priority Claims, Class 2 –  
3 Other Secured Claims, Class 3 – Secured Claims Relating to First and Refunding Mortgage  
4 Bonds, Class 4a – Mortgage Backed PC Bond Claims, Class 4b – MBIA Insured PC Bond  
5 Claims, Class 4d – Letter of Credit Backed PC Bond Claims, Class 4f – Prior Bond Claims,  
6 Class 4g – Treasury PC Bond Claims, Class 8 – Environmental, Fire Suppression, Pending  
7 Litigation, Tort and FERC License Claims, Class 10 – Convenience Claims, Class 12 – Workers’  
8 Compensation Claims, and Class 13 – Preferred Stock Equity Interests.<sup>40</sup> Holders of Claims in  
9 Class 3 and 4a are deemed to have accepted the Commission’s Plan and may express a  
10 preference if they vote in favor of the PG&E Plan.

11 The Commission reserves the right to amend the Plan in accordance with its terms or  
12 seek nonconsensual confirmation of the Plan under section 1129(b) of the Bankruptcy Code or  
13 both with respect to any Class of Claims that is entitled to vote to accept, prefer or reject the  
14 Plan, if such Class rejects the Plan.

## 15 **2. Unfair Discrimination and Fair and Equitable Tests.**

16 To obtain nonconsensual confirmation of the Plan, it must be demonstrated to the  
17 Bankruptcy Court that the Plan “does not discriminate unfairly” and is “fair and equitable” with  
18 respect to each impaired, nonaccepting class. The Bankruptcy Code provides a non-exclusive  
19 definition of the phrase “fair and equitable.” The Bankruptcy Code establishes “cram down”  
20 tests for secured creditors, unsecured creditors and equity holders, as follows:

- 21 • Secured Creditors. Either (a) each impaired secured creditor retains its liens securing  
22 its secured claim and receives on account of its secured claim deferred cash payments  
23 totaling, and having a present value as of the effective date of the plan equal to, at  
24 least the amount of its allowed secured claim, (b) each impaired secured creditor  
25 realizes the “indubitable equivalent” of its allowed secured claim or (c) the property  
securing the claim is sold free and clear of liens with such liens to attach to the  
proceeds of the sale and the treatment of such liens on proceeds to be as provided in  
clause (a) or (b) above.

26 <sup>40</sup> While the Commission believes that Class 13 is unimpaired by the Plan, certain holders of Preferred Stock  
27 Equity Interests may believe that Class 13 is impaired by the Plan. To avoid delaying the voting process,  
28 holders of Preferred Stock Equity Interests are being solicited to vote on the Plan as a precautionary  
measure so that the voting results will be available if it is determined by the Bankruptcy Court that such  
Class is impaired.

- 1
- Unsecured Creditors. Either (a) each impaired unsecured creditor receives or retains as of the effective date of the plan property of a value equal to the amount of its allowed claim or (b) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the plan.
- 2
- Equity Interests. Either (a) each impaired holder of an equity interest will receive or retain as of the effective date of the plan property of a value equal to the greatest of the fixed liquidation preference to which such holder is entitled, the fixed redemption price to which such holder is entitled or the value of the interest or (b) the holder of any interest that is junior to the nonaccepting class will not receive or retain any property under the plan.
- 3
- 4
- 5
- 6

7 A plan does not “discriminate unfairly” with respect to a nonaccepting class if the value  
8 of the cash, securities and/or other value to be distributed to the nonaccepting class is equal to, or  
9 otherwise fair when compared to, the value of the distributions to other classes whose legal rights  
10 are the same as those of the nonaccepting class.

11 The Commission believes and will demonstrate at the Confirmation Hearing that the Plan  
12 “does not discriminate unfairly” and is “fair and equitable” with respect to each impaired  
13 Class and Equity Interest that does not vote to accept the Plan.

14 **3. Feasibility and Projections; Valuation.**

15 (a) Feasibility and Projections.

16 The Bankruptcy Code permits a plan to be confirmed if it is not likely to be followed by  
17 liquidation or the need for further financial reorganization. For purposes of determining whether  
18 the Plan meets this requirement, the Commission has analyzed the Reorganized Debtor’s ability  
19 to meet its obligations under the Plan. As part of this analysis, the Commission has prepared  
20 projections of the financial performance for the Reorganized Debtor for the period from  
21 January 1, 2003 through December 31, 2005 (the “Projection Period”), based upon information  
22 provided by the Debtor. These projections (the “Projections”), and the assumptions on which  
23 they are based, are included in the Projected Financial Information, annexed hereto as Exhibit C.

24 The financial information and Projections appended to the Disclosure Statement include  
25 for the Projection Period:

- 26
- Projected balance sheets for fiscal years ending in 2003, 2004 and 2005.
  - Projected income statements for fiscal years ending in 2003, 2004 and 2005.
- 27
- 28

- Projected statements of cash flow for the fiscal years ending in 2003, 2004 and 2005.

As described below, based upon such projections, the Commission believes that the Reorganized Debtor will be able to make all payments and distributions required pursuant to the Plan and continue to operate as a Commission-regulated entity, and, therefore, that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization.

The Commission and its advisors developed the Projections to assess the value of the Reorganized Debtor. The Projections set forth below and in Exhibit C are based primarily upon operating forecasts and assumptions as presented in the PG&E Disclosure Statement filed on April 3, 2002 and, among other things, the successful reorganization of the Debtor, an assumed Effective Date of January 31, 2003 and no significant downturn in the specific markets in which the Debtor operates.

The Projections were also prepared to assist holders of Claims in Impaired Classes – Classes 4(c), 4(e), 5, 6, 7, 10, 11 and 14 – in determining whether to accept or reject the Plan. The Projections should be read in conjunction with the assumptions, qualifications and footnotes to the tables containing the Projections set forth in Exhibit C, the historical consolidated financial information (including the notes and schedules thereto) and the other information set forth in the Parent's Annual Report on Form 10-K for the fiscal year ended December 31, 2001. The initial basis of the Projections relied substantially upon the financial projections set forth in PG&E's Disclosure Statement. The Commission and its advisors then applied further adjustments to the Debtor's financial projections. The Projections, which were prepared in April 2002, were based, in part, on economic, competitive, regulatory and general business conditions prevailing at the time. While as of the date of this Disclosure Statement such conditions have not materially changed, any future changes in these conditions may materially impact the ability of the Debtor to achieve the Projections.

**THE PROJECTIONS ARE BASED UPON A NUMBER OF SIGNIFICANT ASSUMPTIONS. ACTUAL OPERATING RESULTS AND VALUES MAY VARY.**

- (b) Valuation.

1 In connection solely with the Commission's Plan and in response to a request for  
2 information in the Chapter 11 Case, the Commission has evaluated the structure and organization  
3 of the Debtor's assets and their financing capabilities under the existing corporate structure and  
4 regulation. The value of the assets of the Reorganized Debtor is primarily a function of the  
5 regulated rate base. The rate base is the primary factor that determines the profitability of the  
6 assets and the cash flow(s) that can be distributed to the owners of the business without  
7 impairing future growth and/or probability.

8 The Commission's Plan calls for the reinstatement of certain of PG&E's indebtedness,  
9 the repayment in Cash of other indebtedness, and the issuance of approximately \$3.9 billion of  
10 debt securities and \$1.75 billion of equity securities. On the Effective Date, the Commission  
11 estimates that the Debtor's book capitalization (or rate base)<sup>41</sup> would be approximately  
12 \$15.0 billion and that its capital structure would be 48.5% equity and 51.5% debt (excluding off-  
13 credit rate reduction bonds). The Commission believes that the debt to book capitalization ratio  
14 under its Plan qualifies the Debtor for an investment grade credit rating pursuant to the  
15 quantitative criteria used by the rating agencies.

#### 16 **4. Best Interests Test.**

17 With respect to each impaired Class of Claims and Equity Interests, confirmation of the  
18 Plan requires that each holder of a Claim or Equity Interest either (a) accept the Plan or  
19 (b) receive or retain under the Plan property of a value, as of the Effective Date, that is not less  
20 than the value such holder would receive if the Debtor were liquidated under chapter 7 of the  
21 Bankruptcy Code. To determine the recovery that holders of Claims and Equity Interests in each  
22 Impaired Class would receive if the Debtor were liquidated under chapter 7, the Bankruptcy  
23 Court must determine the dollar amount that would be generated from the liquidation of the  
24 Debtor's assets and properties in the context of a chapter 7 liquidation case. The Cash amount

25 \_\_\_\_\_  
26 <sup>41</sup> Book capitalization is roughly the equivalent of rate base for ratemaking purposes. Because book  
27 capitalization is roughly the equivalent of rate base for ratemaking purposes, it is a good measure of  
28 economic value, because regulated rates are based on costs. For purposes of debt to capitalization ratio,  
leverage at emergence will be 51.5% of debt to total capitalization because there will be no borrowings  
under the revolving credit facility.



1 that would be available for satisfaction of Claims and Equity Interests would consist of the  
2 proceeds resulting from the disposition of the unencumbered assets and properties of the Debtor,  
3 augmented by the unencumbered Cash held by the Debtor at the time of the commencement of  
4 the liquidation case. Such Cash amount would be reduced by the costs and expenses of  
5 liquidation and by such additional administrative and priority claims that might result from the  
6 termination of the Debtor's business and the use of chapter 7 for the purposes of liquidation.

7 The Debtor's costs of liquidation under chapter 7 would include the fees payable to a  
8 trustee in bankruptcy, as well as those fees that might be payable to attorneys and other  
9 professionals that such a trustee might engage. In addition, claims would arise by reason of the  
10 breach or rejection of obligations incurred and leases and executory contracts assumed or entered  
11 into by the Debtor during the pendency of the Chapter 11 Case. The foregoing types of claims  
12 and other claims that might arise in a liquidation case or result from the pending Chapter 11  
13 Case, including any unpaid expenses incurred by the Debtor during the Chapter 11 Case, such as  
14 compensation for attorneys, financial advisors and accountants, would be paid in full from the  
15 liquidation proceeds before the balance of those proceeds would be made available to pay pre-  
16 petition Claims.

17 To determine if the Commission's Plan is in the best interests of each impaired Class, the  
18 value of the distributions from the proceeds of a liquidation of the Debtor's unencumbered assets  
19 and properties, after subtracting the amounts attributable to the foregoing claims, must be  
20 compared with the value of the property offered to such Classes of Claims under the Plan.

21 After considering the effects that a chapter 7 liquidation would have on the ultimate  
22 proceeds available for distribution to creditors in the Chapter 11 Case, including (a) the increased  
23 costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in  
24 bankruptcy and professional advisors to such trustee, (b) the erosion in value of assets in a  
25 chapter 7 case in the context of the expeditious liquidation required under chapter 7 and the  
26 "forced sale" atmosphere that would prevail and (c) the substantial increases in claims that would  
27 be satisfied on a priority basis or on parity with creditors in the Chapter 11 Case, the  
28 Commission has determined that confirmation of the Plan will provide each holder of an

1 Allowed Claim and Equity Interest with a recovery that is not less than such holder would  
2 receive pursuant to the liquidation of the Debtor under chapter 7.

3 The Commission also believes that the value of any distributions to each Class of  
4 Allowed Claims in a chapter 7 case, including all Secured Claims, would be less than the value  
5 of distributions under the Plan because such distributions in a chapter 7 case would not occur for  
6 a substantial period of time. The distribution of the proceeds of the liquidation could be delayed  
7 for up to two (2) years after the completion of such liquidation in order to resolve claims and  
8 prepare for distributions. In the event litigation were necessary to resolve claims asserted in the  
9 chapter 7 case, the delay could be prolonged. In addition, the process of liquidating the Debtor's  
10 businesses would be subject to review by numerous regulatory agencies, including the  
11 Commission, the FERC, the NRC and the U.S. Department of Justice.

12 **D. Consummation**

13 The Plan will be consummated on the Effective Date. The Effective Date of the Plan will  
14 occur upon the expiration of two (2) Business Days after the date on which the conditions  
15 precedent to the effectiveness of the Plan, as set forth in Section 8.2 of the Plan, have been  
16 satisfied or waived pursuant to Sections 8.4 and 11.10 of the Plan. For a more detailed  
17 discussion of the conditions precedent to the Effective Date of the Plan and the consequences of  
18 the failure to meet such conditions, see Section VI.I of the Disclosure Statement.

19 The Plan is to be implemented pursuant to its terms, consistent with the provisions of the  
20 Bankruptcy Code.

21 **VIII. FINANCIAL INFORMATION**

22 The audited consolidated balance sheets and the related consolidated statements of  
23 operations, shareholders' equity (deficit) and cash flow for the years ended December 31, 1998,  
24 1999 and 2000, of the Parent and its subsidiaries are filed with the SEC and incorporated herein  
25 by reference. This financial information is provided to permit the holders of Claims and Equity  
26 Interests to better understand the Debtor's historical business performance and the impact of the  
27 Chapter 11 Case on the Debtor's business.

1 The Debtor is required to file monthly operating reports with the Bankruptcy Court.  
2 Such financial information is on file with the Bankruptcy Court and may be reviewed in the  
3 office of the Clerk of the Bankruptcy Court during normal court hours or through the “Pacific  
4 Gas & Electric Company Chapter 11 Case” link available through the website maintained by the  
5 Bankruptcy Court at <http://www.canb.uscourts.gov>. The monthly operating reports are filed  
6 under the following docket numbers: April—1366; May—1365; June—1759; July—2065;  
7 August—2460; September—3008; October—3647; November—4055; and December—4941.

## 8 IX. SECURITIES LAWS MATTERS

9 Section 1145(a) of the Bankruptcy Code generally exempts from the registration  
10 requirements of the Securities Act and equivalent state securities laws the issuance of securities  
11 if the following conditions are satisfied: (i) the securities are issued by a debtor (or its successor)  
12 under a plan; (ii) the recipients of the securities hold a claim against, an interest in, or claim for  
13 an administrative expense against the debtor; and (iii) the securities are issued entirely in  
14 exchange for the recipient’s claim against or interest in the debtor, or are issued principally in  
15 such exchange and partly for cash or property. The Commission believes that the debt and  
16 equity securities to be issued by the Reorganized Debtor pursuant to the Commission’s Plan do  
17 not fall within the exception provided in section 1145(a) of the Bankruptcy Code and equivalent  
18 state securities laws in that such securities will be issued and sold other than in satisfaction of  
19 claims against or interests in the Debtor. Therefore, to the extent the issuance and sale of  
20 securities to initial purchasers is not exempted by any other non-bankruptcy law from the  
21 registration requirements of the Securities Act and equivalent state securities laws, the  
22 Reorganized Debtor must, as a condition to effectiveness, file registration statements covering  
23 the respective Securities. The Reorganized Debtor will be ordered to use all commercially  
24 reasonable efforts to register or qualify the securities under all applicable state securities or “blue  
25 sky” laws on or prior to the date its respective registration statements are declared effective.

## 26 X. CERTAIN RISK FACTORS TO BE CONSIDERED

27 **HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE**  
28 **DEBTOR SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET**  
**FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS**

1 **DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER**  
2 **HEREWITH AND/OR INCORPORATED BY REFERENCE HEREIN), PRIOR TO**  
3 **VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD**  
4 **NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS**  
5 **INVOLVED IN CONNECTION WITH THE COMMISSION'S PLAN AND ITS**  
6 **IMPLEMENTATION.**

7 **A. Certain Bankruptcy Law Considerations**

8 **1. Risk of Non-Confirmation of the Plan.**

9 Although the Commission believes that its Plan will satisfy all requirements necessary for  
10 confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will  
11 reach the same conclusion. Moreover, there can be no assurance that modifications to the  
12 Commission's Plan will not be required for confirmation or that such modifications would not  
13 necessitate the resolicitation of votes. If the conditions precedent to the Confirmation Date set  
14 forth in Section 8.2 of the Plan have not occurred or been waived, the Plan shall not be  
15 confirmed by the Bankruptcy Court.

16 In addition, the PG&E Proponents have notified the Commission that they will object to  
17 the Confirmation of the Plan on grounds, among others, that: (i) the Plan does not meet the  
18 liquidation test as to equity and does not result in a fair and equitable treatment of equity; (ii) the  
19 Plan results in an illegal transfer of value from equity to third-party non-creditors; (iii) the Plan is  
20 infeasible and unenforceable in light of the Commission's assertions of sovereign immunity;  
21 (iv) the debt and equity issuances proposed under the Plan and the investment grade credit  
22 assurance as of the Effective Date are infeasible; and (v) the alleged confiscation of utility return  
23 effectuated by the Plan is an illegal taking. The Commission does not agree with the assertions  
24 of the PG&E Proponents.

25 **2. Nonconsensual Confirmation.**

26 In the event one or more impaired Classes of Claims or Equity Interests does not accept  
27 the Plan, the Bankruptcy Court may nevertheless confirm the Plan at the Commission's request if  
28 all other conditions for confirmation have been met and at least one impaired Class has accepted  
the Plan (such acceptance being determined without including the vote of any "insider" in such  
Class) and, as to each impaired Class that has not accepted the Plan, if the Bankruptcy Court  
determines that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect

1 to the rejecting impaired classes, as described in Section VII.C.2 of the Disclosure Statement.

2 The Commission believes that the Plan satisfies these requirements.

3 **3. Risk of Non-Occurrence of the Effective Date.**

4 There can be no assurance as to the timing of the Effective Date. If the conditions  
5 precedent to the Effective Date set forth in Section 8.2 of the Plan have not occurred or been  
6 waived on or before January 31, 2003, the Confirmation Order shall be vacated, in which event  
7 no distributions under the Plan would be made, the Debtor and all holders of Claims and Equity  
8 Interests would be restored to the status quo ante as of the day immediately preceding the  
9 Confirmation Date and the Debtor's obligations with respect to Claims and Equity Interests  
10 would remain unchanged.

11 **B. Risk Factors Related To Sale Of Securities Under The Plan**

12 **1. Creditworthiness Risks.**

13 The Commission's Plan is contingent upon the Reorganized Debtor receiving an  
14 investment grade rating from each of S&P and Moody's on the Effective Date, a condition which  
15 may only be waived pursuant to a Final Order of the Bankruptcy Court obtained by motion of the  
16 Commission and after notice and a hearing on not less than ten (10) days' notice to the Debtor,  
17 the Committee and the United States Trustee. The creditworthiness of the Reorganized Debtor is  
18 a function of both qualitative and quantitative factors. Upon the Effective Date, the Commission  
19 believes the credit profile of the Reorganized Debtor will be consistent with that of an  
20 investment-grade company under the quantitative and qualitative rating criteria set forth by S&P  
21 and Moody's. To the extent that such ratings depend ultimately on the partly subjective  
22 evaluations of independent credit-rating agencies, the Commission cannot state with certainty  
23 what rating such agencies will assign to the Reorganized Debtor. In connection with the  
24 qualitative ratings criteria, the Commission has stated its commitment to implementing  
25 mechanisms and policies that provide for the utility's generation of predicable earnings, among  
26 other factors. There can be no assurance that the Reorganized Debtor will achieve an investment  
27 grade rating by the Effective Date. This could adversely effect its ability to market the securities,  
28 the sale of which is necessary to implement the Plan.

1           **2.     Exit Facility.**

2           It is assumed that pursuant to the Commission's Plan, the Reorganized Debtor will enter  
3 into the Exit Facility, consisting of a new revolving Credit Facility and capital expenditure Sub-  
4 Facility. The Commission believes the Credit Facility will amount to approximately \$1.9 billion  
5 and will be used for the purposes of, among other things, funding operating expenses and  
6 seasonal fluctuations of working capital, as well as funding distributions to the holders of  
7 Allowed Claims, if necessary. The Sub-Facility will total approximately \$500 million. The  
8 Credit Facility will have a carve out of approximately \$955 million for letters of credit, which  
9 may be needed to post collateral for workers' compensation liabilities. The Debtor is projected  
10 to have, as of January 2003, approximately \$1.9 billion in accounts receivable and inventory  
11 available as collateral, however, the Commission cannot guarantee that the Reorganized Debtor  
12 will be able to enter into the Exit Facility or another credit facility on substantially the same  
13 terms. In such case, the Reorganized Debtor may be unable to meet operating expenses and  
14 working capital requirements.

15           **3.     Reorganized Debtor New Money Notes.**

16           It is assumed that pursuant to the Commission's Plan, the Reorganized Debtor will issue  
17 approximately \$3.86 billion of Reorganized Debtor New Money Notes. The Reorganized Debtor  
18 New Money Notes will be priced at rates that reflect the credit rating, credit profile and market  
19 conditions at the time of issuance. The Commission believes the credit profile will be  
20 comparable to an investment-graded credit so that the Reorganized Debtor will be able to tap the  
21 investment-grade market to sell the Reorganized Debtor New Money Notes, but there can be no  
22 assurances that the Reorganized Debtor will have access to this market which could diminish the  
23 value of the Reorganized Debtor New Money Notes, in which case the Reorganized Debtor may  
24 be unable to raise a sufficient amount of Cash under the Reorganized Debtor New Money Notes  
25 sale to satisfy all Allowed Claims.

26           **4.     Sale of Equity.**

27           The Commission's Plan contemplates the sale of approximately \$1.75 billion of equity.  
28 The Commission believes there is ample equity value in the Reorganized Debtor to issue such

1 equity to partially fund its Plan. However, the Reorganized Debtor may be unable to raise a  
2 sufficient amount of Cash under the equity offering to satisfy all Allowed Claims.

3 **5. Interest Rate Risk.**

4 Prior to the pricing of the debt securities to be issued by the Reorganized under the Plan,  
5 interest rates could increase and be higher than the rates assumed for purposes of the projected  
6 financial information attached hereto as Exhibit C. If interest rates increase substantially prior to  
7 the consummation of the Plan, the Reorganized Debtor may be unable to raise a sufficient  
8 amount of Cash under the debt offerings to satisfy all Allowed Claims and Allowed Equity  
9 Interests.

10 **C. Estimates of Allowed Claims**

11 If the actual amount of Allowed Claims exceeds the estimates herein and such excess  
12 cannot be funded through a combination of the Debtor's cash-on-hand at emergence, the  
13 proceeds of the debt and equity securities to be issued under the Plan and the amounts available  
14 under the Exit Facility, then the holders of such Allowed Claims will be unable to be paid in full  
15 in Cash on the Effective Date.

16 **D. Regulatory Risks**

17 The Commission is committed to restoring PG&E to financial health and regulating  
18 PG&E's business in a manner conducive to its effective and successful reorganization. The  
19 Commission does not presently anticipate any material changes in PG&E's regulatory  
20 environment that would adversely impact the Debtor's and/or Reorganized Debtor's business in  
21 a material way or its ability to implement the Commission's Plan. However, as the state agency  
22 constitutionally and legislatively charged with regulating all of California's public utilities with a  
23 view to serving the interests of California's citizens, the Commission cannot abandon this  
24 fundamental mandate for the particular interests of one entity. Thus, the Commission cannot  
25 guarantee that unanticipated future events will not occur that could force the Commission to take  
26 actions that could conceivably adversely affect the Debtor and/or Reorganized Debtor.

27 Though the Commission does not presently anticipate any changes in its regulatory  
28 oversight of PG&E that would jeopardize PG&E's reorganization pursuant to the Commission's

1 Plan, the Commission cannot guarantee that the FERC, NRC, SEC or other agency with  
2 regulatory jurisdiction over the Debtor and/or Reorganized Debtor may issue an order or series  
3 of orders that adversely impact the Debtor and/or the Reorganized Debtor's business or their  
4 ability to implement the Plan. Similarly, the Commission cannot guarantee that there will not be  
5 any legislative changes that may adversely impact the Debtor's and/or the Reorganized Debtor's  
6 business or its ability to implement the Plan.

7 **E. Tax Risks**

8 For a summary of certain federal income tax consequences of the Plan to the Parent, the  
9 Debtor, and to certain holders of Claims and Equity Interests, see Section XII of the Disclosure  
10 Statement, "Certain Federal Income Tax Consequences of the Commission's Plan."

11 **F. Litigation Risks**

12 On April 11, 2002, FTCR filed a petition for writ of mandamus in the California Supreme  
13 Court. The writ seeks an order from the court prohibiting the Commission from filing or  
14 implementing its Plan, arguing that the Plan violates state law. The Commission filed a letter  
15 response with the court on April 17, 2002. The Commission believes that the suit lacks merit,  
16 and believes that it is extremely unlikely that the California Supreme Court will decide to take  
17 the case. However, if the FTCR's application is granted, an outcome the Commission believes is  
18 extremely unlikely, then the Commission may be unable to further prosecute this Plan without  
19 first taking whatever additional action the California Supreme Court may require.

20 **XI. DESCRIPTION OF CERTAIN CLAIMS<sup>42</sup>**

21 **A. Pollution Control Bonds**

22 **1. General.**

23 Pursuant to the terms of various separate trust indentures (each, an "Indenture" and,  
24 collectively, the "Indentures") each between the California Pollution Control Financing  
25 Authority, a public instrumentality and political subdivision of the State of California (the  
26 "Issuer") and Bankers Trust Company, as trustee, or U.S. Bank Trust National Association, as

27 <sup>42</sup> In many places, the Commission relies, in large part, on the factual representations contained in the PG&E  
28 Disclosure Statement. The Commission has not independently verified such representations.



trustee (each a “Bond Trustee”), as applicable, and various corresponding loan agreements with the Debtor, as of the Petition Date of the Chapter 11 Case, the Issuer had issued and outstanding each of the following 15 series of revenue bonds (defined collectively in the Plan as, the “PC Bonds”) in the original aggregate principal amount of \$1.69 billion as set forth below:

<u>Series</u>	<u>Original Principal Amount</u>
California Pollution Control Financing Authority, 6 5/8% Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1992 Series A (the “ <u>92A Bonds</u> ”)	\$35,000,000
California Pollution Control Financing Authority, 6.35% Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1992 Series B (the “ <u>92B Bonds</u> ”)	\$50,000,000
California Pollution Control Financing Authority, 5 7/8% Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1993 Series A (the “ <u>93A Bonds</u> ”)	\$60,000,000
California Pollution Control Financing Authority, 5.85% Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1993 Series B (the “ <u>93B Bonds</u> ”)	\$200,000,000
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$200,000,000 1996 Series A (the “ <u>MBIA Insured PC Bonds</u> ”)	\$200,000,000
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$160,000,000 1996 Series B (the “ <u>96B Bonds</u> ”)	\$160,000,000
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$200,000,000 1996 Series C (the “ <u>96C Bonds</u> ”)	\$200,000,000
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$100,000,000 1996 Series D (the “ <u>96D Bonds</u> ”)	\$100,000,000

1	<u>Series</u>	<u>Original Principal Amount</u>
2	California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$165,000,000 1996 Series E (the " <u>96E Bonds</u> ")	\$165,000,000
5	California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$100,000,000 1996 Series F (the " <u>96F Bonds</u> ")	\$100,000,000
8	California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series G (the " <u>96G Bonds</u> ")	\$62,870,000
10	California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series A (the " <u>97A Bonds</u> ")	\$45,000,000
13	California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series B (the " <u>97B Bonds</u> ")	\$148,550,000
16	California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series C (the " <u>97C Bonds</u> ")	\$148,550,000
19	California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series D (the " <u>97D Bonds</u> ")	\$17,900,000

22 Any series of 96C Bonds, 96E Bonds, 96F Bonds and/or 97B Bonds that remain  
 23 outstanding on the Voting Record Date or the Effective Date, as applicable, are defined  
 24 collectively in the Commission's Plan as the "Letter of Credit Backed PC Bonds." The 92A  
 25 Bonds, 92B Bonds, 93A Bonds and the 93B Bonds are defined collectively in the Plan as the  
 26 "Mortgage Backed PC Bonds." The 96B Bonds, 96D Bonds, 97A Bonds and the 97C Bonds,  
 27 together with any series of 96C Bonds, 96E Bonds, 96F Bonds and/or 97B Bonds that have been  
 28 redeemed in whole, but not in part, as of the Voting Record Date or the Effective Date, as

1 applicable, are defined collectively in the Plan as the “Prior Bonds.” The 96G Bonds and the  
2 97D Bonds are defined collectively in the Plan as the “Treasury PC Bonds.”

3 The Issuer loaned the proceeds from the sale of each series of PC Bonds (each a “Bond  
4 Loan” and, collectively, the “Bond Loans”) to the Debtor for the purpose of financing or  
5 refinancing the acquisition and/or construction of certain pollution control, sewage disposal  
6 and/or solid waste disposal facilities of the Debtor located within the State of California. The  
7 Bond Loans were made pursuant to the terms of various loan agreements (each, a “Loan  
8 Agreement” and, collectively, the “Loan Agreements”) between the Issuer and the Debtor,  
9 pursuant to which the Debtor agreed, among other things, to repay the Bond Loans at the times  
10 and in the amounts necessary to enable the Issuer to make full and timely payment of the  
11 principal of, premium, if any, and interest on, each series of PC Bonds when due and to pay the  
12 purchase price of any PC Bonds tendered for purchase by the Debtor in accordance with the  
13 terms of the applicable Indenture.

14 Pursuant to the terms of each of the Indentures, the Issuer has assigned to the Bond  
15 Trustee, for the benefit of the holders of the respective series of PC Bonds, certain of the Issuer’s  
16 rights under the various Loan Agreements, including, but not limited to, the Issuer’s right under  
17 the Loan Agreements to receive payments from the Debtor of the principal of, premium, if any,  
18 and interest due, on the Bond Loans. In this manner, the Issuer has acted solely as a conduit,  
19 loaning the proceeds from the sale of the PC Bonds to the Debtor and assigning its right to  
20 receive repayment of such loans to the Bond Trustee as security for the PC Bonds and to provide  
21 funds for the full payment of the respective PC Bonds.

22 The PC Bonds are special limited obligations of the Issuer payable exclusively out of the  
23 trust estates under each of the Indentures. None of the PC Bonds constitute a debt or liability, or  
24 a pledge of the faith, credit or taxing power of the Issuer, the State of California or any of its  
25 instrumentalities or political subdivisions. Each series of PC Bonds is a limited obligation of the  
26 Issuer payable solely from the revenues derived by the Issuer from the Debtor pursuant to the  
27 terms of the related Loan Agreement to the extent pledged by the Issuer to the Bond Trustee  
28

1 under the terms of the applicable Indenture and from certain other funds pledged and assigned as  
2 part of the trust estates under the applicable Indentures.

3 Each series of PC Bonds was sold in the capital markets on the basis that, assuming the  
4 Debtor continues to comply with certain covenants contained in the Loan Agreements and  
5 certain of the documents, instruments and agreements executed in connection therewith  
6 (collectively, the “PC Bond Documents”) and with certain exceptions, interest on such series of  
7 PC Bonds would not be includible in the gross income of the holders thereof for federal income  
8 tax purposes and that such interest also would be exempt from California personal income taxes.

9 Such tax-exempt status of the PC Bonds has allowed such bonds to be issued at favorable  
10 interest rates, thus allowing the Debtor to finance certain of its capital improvements at interest  
11 rates substantially below comparable conventional taxable financing alternatives available to the  
12 Debtor. Accordingly, the Debtor has indicated that it considers the existence and continued  
13 maintenance of such favorable tax-exempt financing an asset or property of the Debtor’s  
14 chapter 11 estate.

## 15 **2. Mortgage Backed PC Bonds.**

16 With respect to each series of Mortgage Backed PC Bonds, in order to secure its  
17 obligation to repay the Bond Loan made by the Issuer to the Debtor of the proceeds from the sale  
18 of the Mortgage Backed PC Bonds, the Debtor delivered to the Bond Trustee certain of its First  
19 and Refunding Mortgage Bonds (defined in the Plan as the “Mortgage Bonds”) in an aggregate  
20 principal amount equal to the related series of Mortgage Backed PC Bonds. Each series of  
21 Mortgage Bonds delivered to the Bond Trustee to secure a series of Mortgage Backed PC Bonds  
22 provides for payments on such Mortgage Bonds at the times and in the amounts necessary to  
23 allow the Bond Trustee to make full and timely payment of the principal of, premium, if any, and  
24 interest on the related series of Mortgage Backed PC Bonds.

25 Each series of underlying Mortgage Bonds securing Mortgage Backed PC Bonds, was  
26 issued under and secured by the Debtor’s First and Refunding Mortgage dated December 1,  
27 1920, as supplemented and amended (defined in the Plan as the “Mortgage”), which constituted a  
28 first mortgage lien upon all real property and a security interest in substantially all personal

1 property of the Debtor *pari passu* with the security interest of all other First and Refunding  
2 Mortgage Bonds issued thereunder, subject to certain exceptions, including certain tax liens and  
3 certain liens existing on property at the time such property was acquired by the Debtor.

4 **3. Letter of Credit Backed PC Bonds.**

5 With respect to each series of Letter of Credit Backed PC Bonds, the Debtor has entered  
6 into a reimbursement agreement (each defined in the Plan as a “Reimbursement Agreement”)  
7 with a bank (each defined in the Plan as a “Letter of Credit Issuing Bank”) and certain banking  
8 or other financial institutions (each a “Bank”) pursuant to which the Letter of Credit Issuing  
9 Bank has issued its irrevocable letter of credit (each defined in the Plan as a “Letter of Credit”) to  
10 the Bond Trustee, for the account of the Debtor, to provide for the payment of the principal of  
11 and interest on the related series of Letter of Credit Backed PC Bonds and to support the  
12 payment of the purchase price of any Letter of Credit Backed PC Bonds tendered for purchase in  
13 accordance with the terms of the applicable Indenture. Under the terms of each Reimbursement  
14 Agreement, the Debtor is obligated to reimburse the Letter of Credit Issuing Bank for, among  
15 other things, all amounts drawn on the related Letter of Credit.

16 Each Letter of Credit was issued in an initial stated amount (the “Stated Amount”) equal  
17 to the sum of (i) the aggregate outstanding principal amount of the related series of Letter of  
18 Credit Backed PC Bonds (the “Principal Portion”), plus (ii) an amount equal to the amount of  
19 accrued interest on the outstanding principal amount of the related series of Letter of Credit  
20 Backed PC Bonds at an assumed maximum annual rate for a specified period of days as set forth  
21 in the Letter of Credit (the “Interest Portion”). The Stated Amount of each Letter of Credit is  
22 reduced by the amount of each drawing paid thereunder, subject to the provision that (i) with  
23 respect to amounts drawn for the payment of interest on the related Letter of Credit Backed PC  
24 Bonds, the Interest Portion of the Stated Amount is automatically reinstated unless the Letter of  
25 Credit Issuing Bank gives notice to the contrary to the Bond Trustee in accordance with the  
26 terms of the applicable Letter of Credit, and (ii) with respect to amounts drawn to pay the  
27 purchase price of Letter of Credit Backed PC Bonds, the amount so drawn is subject to  
28 reinstatement upon the terms set forth in the applicable Letter of Credit.

1 Under the terms of each of the Indentures pursuant to which each series of Letter of  
2 Credit Backed PC Bonds were issued, each regularly scheduled payment of the principal of, or  
3 interest on, the Letter of Credit Backed PC Bonds is made from moneys drawn by the Bond  
4 Trustee under the related Letter of Credit. The obligation to the Debtor to repay the loan under  
5 the Loan Agreement is deemed satisfied to the extent of any corresponding payment made by the  
6 Letter of Credit Issuing Bank under the terms of the Letter of Credit. With respect to each such  
7 drawing, the Debtor is then obligated to reimburse the Letter of Credit Issuing Bank for the  
8 amount of such drawing. Only if the Letter of Credit Issuing Bank dishonors a drawing or there  
9 is no Letter of Credit then in effect, is the Bond Trustee authorized under the terms of the  
10 Indenture to collect Bond Loan payments due under the respective Loan Agreement directly  
11 from the Debtor and apply such funds to the payment of the principal of, or interest on, the  
12 related Letter of Credit Backed PC Bonds.

13 Accordingly, with respect to each series of Letter of Credit Backed PC Bonds for which  
14 the related Letter of Credit remains outstanding, all payments of the principal of, and interest on,  
15 the Letter of Credit Backed PC Bonds have been fully and timely made when due from draws  
16 made by the respective Bond Trustee on the respective Letter of Credit in accordance with the  
17 terms of the related Indenture.

#### 18 **4. MBIA Insured PC Bonds.**

19 The Debtor has entered into a reimbursement and indemnity agreement (defined in the  
20 Plan as the “MBIA Reimbursement Agreement”) with MBIA Insurance Corporation (“MBIA”)   
21 pursuant to which MBIA has issued its financial guaranty insurance policy (defined in the Plan  
22 as the “PC Bond Insurance Policy”) insuring the full payment of regularly scheduled principal of  
23 and interest (but not premium) on the MBIA Insured PC Bonds.

24 The PC Bond Insurance Policy unconditionally and irrevocably guarantees the full and  
25 complete payment required to be made by or on behalf of the Issuer to the Bond Trustee of an  
26 amount equal to (i) the principal of and interest on the MBIA Insured PC Bonds as such  
27 payments shall become due but shall not be so paid (except that in the event of any acceleration  
28 of the due date of such principal by reason of mandatory or optional redemption or acceleration

1 resulting from default or otherwise, other than any advancement of maturity pursuant to a  
2 mandatory sinking fund payment or mandatory redemption upon the occurrence of a  
3 determination of taxability of the MBIA Insured PC Bonds, the payment guarantee by the PC  
4 Bond Insurance Policy shall be made in such amounts and at such times as such payments of  
5 principal would have been due had there not been any such acceleration); and (ii) the  
6 reimbursement of any such payment which is subsequently recovered from any owner of MBIA  
7 Insured PC Bonds pursuant to a final judgment by a court of competent jurisdiction that such  
8 payment constitutes an avoidable preference to such owner within the meaning of any applicable  
9 bankruptcy law. Accordingly, since the Petition Date, all regularly scheduled payments of the  
10 principal of, and interest on, the MBIA Insured PC Bonds have been fully and timely made when  
11 due from monies paid to the Bond Trustee by MBIA under the terms of the PC Bond Insurance  
12 Policy and in accordance with the terms of the related indenture.

13 Under the terms of the MBIA Reimbursement Agreement, the Debtor is obligated to  
14 reimburse MBIA for all payments made by MBIA to the Bond Trustee under the PC Bond  
15 Insurance Policy and to indemnify MBIA against certain liabilities, costs and expenses that it  
16 may sustain in connection with the MBIA Insured PC Bonds.

17 **5. Prior Bonds.**

18 With respect to each series of Prior Bonds, the Debtor entered into a reimbursement  
19 agreement (each defined in the Plan as a “Prior Reimbursement Agreement”) with a national  
20 banking association (each defined in the Plan as a “Prior Letter of Credit Issuing Bank”) pursuant to which the Prior Letter of Credit Issuing Bank issued its irrevocable letter of credit  
21 (each defined in the Plan as a “Prior Letter of Credit”) to the Bond Trustee, for the account of the  
22 Debtor, to secure the payment of the principal of and interest on the related series of Prior Bonds  
23 and to provide for the payment of the purchase price of such Prior Bonds tendered for purchase  
24 in accordance with the terms of the applicable Indenture. Under the terms of each Prior  
25 Reimbursement Agreement, the Debtor was obligated to reimburse the Prior Letter of Credit  
26 Issuing Bank for, among other things, all amounts drawn on the related Prior Letter of Credit.  
27  
28

1           Each Prior Letter of Credit was issued in an initial stated amount equal to the sum of  
2 (i) the aggregate outstanding principal amount of the related series of Prior Bonds, plus (ii) an  
3 amount equal to the amount of accrued interest on the outstanding principal amount of the  
4 related series of Prior Bonds at an assumed maximum annual rate for a specified period of days  
5 as set forth in the Prior Letter of Credit.

6           On or after the Petition Date, with respect to each series of Prior Bonds, the Prior Letter  
7 of Credit Issuing Bank gave notice to the Bond Trustee of the occurrence of an event of default  
8 under the applicable Prior Reimbursement Agreement and, in accordance with the terms of the  
9 applicable Indenture, directed the Bond Trustee to call the related series of Prior Bonds for  
10 redemption in full. Pursuant to the terms of the applicable Indentures, the Bond Trustee drew  
11 upon the related Prior Letters of Credit and applied the proceeds from such Prior Letter of Credit  
12 draws to pay the redemption price of the Prior Bonds. All of the Prior Bonds have been  
13 redeemed in whole and no principal or interest remains outstanding with respect thereto.

14           With respect to each series of Prior Bonds, under the terms of the respective Prior  
15 Reimbursement Agreement the Debtor is obligated to reimburse the respective Prior Letter of  
16 Credit Issuing Bank for, among other things, the amount drawn under the related Prior Letter of  
17 Credit which was applied to the payment of the redemption price of the Prior Bonds (that portion  
18 of the reimbursement obligation of the Debtor under the Prior Reimbursement Agreement arising  
19 with respect to the portion of the final drawing made under the related Prior Letter of Credit for  
20 the payment of the principal portion of the redemption price of the related series of Prior Bonds,  
21 referred to in the Plan as the “Reimbursement Obligation”).

22           **6. Treasury PC Bonds.**

23           Prior to the Petition Date, the Debtor purchased all of the outstanding Treasury PC  
24 Bonds. The Debtor remains the sole holder of all of the beneficial interest in the Treasury PC  
25 Bonds. All of the Treasury PC Bonds remain outstanding.

26           While the Treasury PC Bonds are held by the Debtor, payments of principal or interest  
27 made by the Debtor under the terms of each of the related Loan Agreements are returned to the  
28



1 Debtor in the form of payments of principal or interest on the related series of Treasury PC  
2 Bonds.

3 During the period that Treasury PC Bonds are held by the Debtor or any other  
4 “substantial user” of the facilities financed or refinanced by such Treasury PC Bonds or by any  
5 “related person” thereto within the meaning of section 103(b)(13) of the Internal Revenue Code  
6 of 1954, as amended, interest on such Treasury PC Bonds may not be tax-exempt. However, if  
7 such Treasury PC Bonds were sold or transferred to a sufficiently unrelated third party and the  
8 Debtor continued to comply with the covenants set forth in the related PC Bond Documents, then  
9 interest on such Treasury PC Bonds could again be excluded from the gross income of the new  
10 holder thereof for federal income tax purposes. The ability to subsequently sell Treasury PC  
11 Bonds in the capital markets on such a tax-exempt basis, with its commensurate interest cost  
12 savings over similar conventional taxable debt, is an asset or property of the Debtor’s chapter 11  
13 estate which the Debtor seeks to preserve.

## 14 **XII. CERTAIN FEDERAL INCOME TAX** 15 **CONSEQUENCES OF THE COMMISSION’S PLAN**

### 16 **A. Introduction**

17 The following discussion summarizes certain federal income tax consequences of the  
18 implementation of the Commission’s Plan to the Debtor and certain holders of Claims and  
19 Equity Interests. The following summary does not address the federal income tax consequences  
20 to holders whose Claims are entitled to reinstatement or are unimpaired under the Plan, e.g.,  
21 holders of Administrative Expense Claims, Professional Compensation and Reimbursement  
22 Claims, Priority Tax Claims, Other Priority Claims, Other Secured Claims, Secured Claims  
23 Relating to First and Refunding Mortgage Bonds, Mortgage Backed PC Bond Claims, MBIA  
24 Insured PC Bond Claims, Letter of Credit Backed PC Bond Claims, Prior Bond Claims, Treasury  
25 PC Bond Claims, Environmental, Fire Suppression, Pending Litigation, Tort and FERC License  
26 Claims, Convenience Claims and Workers’ Compensation Claims. Additionally, this summary  
27 does not address the federal income tax consequences to holders of MBIA Claims and Letter of  
28

1 Credit Bank Claims as it is the Commission’s understanding that such holders have retained  
2 separate counsel to advise them with respect thereto.

3 The following summary is based on the Internal Revenue Code of 1986, as amended (the  
4 “Tax Code”), Treasury Regulations promulgated thereunder, judicial decisions and published  
5 administrative rules and pronouncements of the IRS as in effect on the date hereof. Changes in  
6 such rules or new interpretations thereof may have retroactive effect and could significantly  
7 affect the federal income tax consequences described below.

8 The federal income tax consequences of the Commission’s Plan are complex and are  
9 subject to significant uncertainties. The Commission may request certain opinions from its tax  
10 advisors confirming certain, but not all, of the federal income tax consequences of the  
11 Commission’s Plan to the Debtor and certain holders of Claims and Equity Interests. However,  
12 there is no assurance that any opinion of its tax advisors will be requested. In addition, this  
13 summary does not address foreign, state or local tax consequences of the Commission’s Plan, nor  
14 does it purport to address the federal income tax consequences of the Commission’s Plan to  
15 special classes of taxpayers (such as foreign taxpayers, broker-dealers, banks, mutual funds,  
16 insurance companies, financial institutions, small business investment companies, regulated  
17 investment companies, tax-exempt organizations, and investors in pass-through entities).

18 ACCORDINGLY, THE FOLLOWING SUMMARY OF CERTAIN FEDERAL  
19 INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS  
20 NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON  
21 THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM OR  
22 EQUITY INTEREST. ALL HOLDERS OF CLAIMS AND EQUITY INTERESTS ARE  
23 URGED TO CONSULT THEIR OWN TAX ADVISORS FOR THE FEDERAL, STATE,  
24 LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE  
25 COMMISSION’S PLAN.

26 **B. Consequences to the Debtor**

27 The Proponent does not expect that implementation of the Commission’s Plan will create  
28 a federal tax liability or a tax refund for the Debtor.

1           **1.       Distributions of Cash in Satisfaction of Claims.**

2           The payment in full of Allowed Claims in Cash pursuant to the Commission’s Plan  
3 should not create tax consequences that differ materially from those that would have obtained  
4 had those claims been repaid, absent a chapter 11 plan, in the ordinary course of the Debtor’s  
5 business. If, however, a holder of an Allowed Claim were to accept less than full payment in  
6 satisfaction of a debt, the Debtor would, for federal income tax purposes, realize cancellation of  
7 indebtedness income (“COD Income”). A debtor in a bankruptcy case generally does not  
8 include COD Income in its gross income, but rather must reduce certain tax attributes, to the  
9 extent it has such attributes to reduce, by the amount of COD Income that otherwise would have  
10 been recognized. The Commission, however, does not anticipate that the Debtor will realize  
11 COD Income from the implementation of the Commission’s Plan.

12           **2.       Issuance of Equity Interests and Reorganized Debtor New Money Notes.**

13           In general, for federal income tax purposes, a corporation does not recognize gain or loss  
14 on the receipt of cash or other property in exchange for its own stock. Therefore, the sale of  
15 Equity Interests by the Reorganized Debtor in a public or private offering, pursuant to the  
16 Commission’s Plan, should not be a taxable event.

17           Similarly, the receipt of borrowed funds by a debt issuer is not income for federal income  
18 tax purposes, so that the issuance of the Reorganized Debtor New Money Notes should not be a  
19 taxable event for the Debtor.

20           **3.       Treatment of Escrow(s).**

21           Pursuant to the Commission’s Plan, one or more escrows will be established to hold any  
22 amounts that would otherwise be distributable to holders of certain Disputed Claims. The  
23 Commission believes that any escrow established with respect to Disputed Claims generally  
24 should not be treated as a separate taxable entity for federal income tax purposes, and that any  
25 amounts held by any such escrow should be treated as assets of the Reorganized Debtor.

26           However, depending on the nature of the Claims disputed, it is possible that one or more  
27 of the escrows could, either at inception or some later time, constitute a “qualified settlement  
28 fund” within the meaning of Treasury Regulation Section 1.468B-1. If so treated, the escrow

1 would be subject to a separate entity level tax at the maximum rate applicable to trusts and  
2 estates (currently 38.6%), and the taxable income of the escrow would be determined by taking  
3 into account interest earned on any notes held by the escrow (but not taking into account the  
4 escrow's receipt of the notes). Any distribution of property from the escrow would result in the  
5 realization of gain or loss by the escrow in an amount equal to the difference between the fair  
6 market value on the date of distribution and the escrow's adjusted tax basis in such property.

7 **C. Consequences to Holders of Impaired Claims**

8 Pursuant to the Plan, holders of Allowed General Unsecured Claims (Class 5), Allowed  
9 ISO, PX and Generator Claims (Class 6), Allowed ESP Claims (Class 7), and Allowed QUIDS  
10 Claims (Class 11) will receive Cash full satisfaction and discharge of their Allowed Claims.

11 **1. Distributions of Cash in Satisfaction of Claims.**

12 In general, each holder of an Impaired Allowed Claim will recognize gain or loss in an  
13 amount equal to the difference between (a) the amount of any Cash received by such holder in  
14 satisfaction of such Claim (other than any Claim for accrued but unpaid interest, inclusive of  
15 Post-Petition Interest) and (b) the holder's adjusted tax basis in such Claim (other than any Claim  
16 for accrued but unpaid interest). For a discussion of the tax consequences of Claims for accrued  
17 but unpaid interest, see "Distributions of Cash in Discharge of Accrued Interest," below.

18 However, whether a holder receiving Cash in satisfaction of a Claim which arose from  
19 litigation or a dispute with the Reorganized Debtor will have income will depend upon the nature  
20 of such underlying litigation or dispute. For example, with respect to a holder of an Allowed  
21 Chromium Litigation Claim, the receipt of Cash in satisfaction of such holder's Claim (other  
22 than any Claim for punitive damages) may be regarded as a non-taxable receipt on account of  
23 personal physical injuries or physical sickness under Section 104 of the Tax Code. In contrast,  
24 the receipt of Cash in satisfaction of a Claim for punitive damages (whether relating to the  
25 Chromium Litigation or otherwise) generally will be taxable to the holder of such Claim.  
26 Holders whose Claims arose from litigation or a dispute are urged to consult their counsel  
27 regarding the tax consequences to them of the receipt of Cash in satisfaction of their Claims.  
28

1           Where gain or loss is recognized by a holder, the character of such gain or loss as long-  
2 term or short-term capital gain or loss or as ordinary income or loss will be determined by a  
3 number of factors, including the tax status of the holder, whether the Claim constitutes a capital  
4 asset in the hands of the holder and how long it has been held, whether the Claim was acquired at  
5 a market discount and whether and to what extent the holder had previously claimed a bad debt  
6 deduction.

7           **2.       Distributions of Cash in Discharge of Accrued Interest.**

8           In general, to the extent that any amount received by a holder of a Claim is received in  
9 satisfaction of accrued interest or accrued original issue discount (“OID”) during its holding  
10 period (including Post-Petition Interest), such amount will be taxable to the holder as interest  
11 income (to the extent not previously included in the holder’s gross income). Conversely, a  
12 holder recognizes a deductible loss to the extent any accrued interest claimed was previously  
13 included in its gross income and is not paid in full.

14 **D.       Consequences to Holders of Equity Interests**

15           **1.       Preferred Stock Equity Interests.**

16           Holders of Preferred Stock Equity Interests (Class 13) will retain their Preferred Stock  
17 and will receive in Cash any dividends accrued through the last scheduled dividend payment date  
18 prior to the Effective Date.

19           The Cash received by holders of Preferred Stock Equity Interests will be treated as a  
20 distribution for federal income tax purposes. Consequently, the cash received by the holders of  
21 Preferred Stock Equity Interests will be treated first as a taxable dividend to the extent of  
22 Reorganized Debtor’s earnings and profits for the taxable year of the distribution and any  
23 accumulated earnings and profits (as determined for federal income tax purposes) and then as a  
24 tax-free return of capital to the extent of the holder’s tax basis in its stock, with any excess  
25 treated as capital gain from the sale or exchange of the stock.

26           A distribution to a corporate shareholder which is treated as a dividend for federal income  
27 tax purposes may qualify for the seventy percent (70%) dividends-received-deduction. Such  
28 dividend-received-deduction is a tax preference item that is taken into account under the

1 alternative minimum tax system and could cause such shareholder to be subject to the alternative  
2 minimum tax. The dividends-received-deduction is only available if certain holding periods and  
3 taxable income requirements are satisfied. The length of time that a shareholder has held stock is  
4 reduced for any period during which the shareholder's risk of loss with respect to the stock is  
5 diminished by reason of the existence of certain options, contracts to sell, short sales, or similar  
6 transactions. The law is unclear whether there would also be excluded any period during which  
7 a holder can require, pursuant to the terms of the stock itself, the redemption of the stock. Also,  
8 to the extent that a corporation incurs indebtedness that is directly attributable to an investment  
9 in the stock on which the dividend is paid, all or a portion of the dividends-received-deduction  
10 may be disallowed. In addition, any dividend received by a corporation is subject to the  
11 "extraordinary dividend" provisions of the Tax Code.

12 For U.S. federal income tax purposes, in general, dividends received by a non-U.S.  
13 holder may also be subject to U.S. withholding tax at a rate of 30 percent. The withholding rate  
14 may be reduced by an applicable income tax treaty in effect between the United States and the  
15 non-U.S. holder's country of residence.

## 16 **2. Equity Interests.**

17 The Debtor and its subsidiaries are members of the Parent Affiliated Group for Federal  
18 income tax purposes. The Reorganized Debtor will remain as a member of the Parent Affiliated  
19 Group if the Parent (or group) owns stock possessing eighty percent (80%) or more of the total  
20 voting power of the stock of the Reorganized Debtor and having a value equal to at least eighty  
21 percent (80%) of the total value of the stock of the Reorganized Debtor. After the sale of new  
22 Equity Interests in the Reorganized Debtor under the Commission's Plan, if the Parent (together  
23 with its subsidiaries) meets this stock ownership test, then the Reorganized Debtor and its  
24 subsidiaries will continue to be members of the Parent Affiliated Group. In such event, the  
25 Parent and the Reorganized Debtor would execute the New Tax Sharing Agreement.

26 Neither the Parent nor the Reorganized Debtor would recognize any income as a result of  
27 the issuance of equity interests under the Commission's Plan.

1           If the Reorganized Debtor were to issue an amount of its stock representing more than  
2 twenty percent (20%) (by either vote or value) of its outstanding voting stock, the Reorganized  
3 Debtor and its subsidiaries would cease to be members of the Parent Affiliated Group (such  
4 cessation, “Deconsolidation”). The departure of members from an affiliated group of  
5 corporations filing a consolidated Federal income tax return can have adverse tax consequences  
6 for both the departing members and the remaining group members, including the parent  
7 corporation. Such potential adverse consequences include the inclusion in the consolidated  
8 taxable income of the affiliated group of certain deferred intercompany tax items and the  
9 recognition by the parent corporation of certain prior negative adjustments to its tax basis in the  
10 stock of a group member. The Commission is not aware of any significant deferred tax items,  
11 previous basis adjustments, or other items that would cause adverse tax consequences either to  
12 the Parent or to the Reorganized Debtor and its subsidiaries in the event of Deconsolidation. If  
13 the Commission becomes aware of any such items, it would attempt to structure the sale of new  
14 Equity Interests in the Reorganized Debtor (e.g., by selling preferred stock that is not “stock” for  
15 this purpose) in a manner that permits the Reorganized Debtor and its subsidiaries to continue to  
16 be members of the Parent Affiliated Group.

17 **E. Information Reporting And Withholding**

18           All distributions to holders of Allowed Claims and Equity Interests under the Plan are  
19 subject to any applicable withholding (including employment tax withholding). Under federal  
20 income tax law, interest, dividends, and other reportable payments may, under certain  
21 circumstances, be subject to “backup withholding” at the then applicable rate (currently at a rate  
22 of thirty percent (30%). Backup withholding generally applies if the holder (a) fails to furnish its  
23 social security number or other taxpayer identification number (“TIN”), (b) furnishes an  
24 incorrect TIN, (c) fails properly to report interest or dividends, or (d) under certain  
25 circumstances, fails to provide a certified statement, signed under penalty of perjury, that the  
26 TIN provided is its correct number and that it is not subject to backup withholding. Backup  
27 withholding is not an additional tax but merely an advance payment, which may be refunded to  
28

1 the extent it results in an overpayment of tax. Certain Persons are exempt from backup  
2 withholding, including, in certain circumstances, corporations and financial institutions.

3 **THE FOREGOING SUMMARY HAS BEEN PROVIDED FOR**  
4 **INFORMATIONAL PURPOSES ONLY. ALL HOLDERS OF CLAIMS AND EQUITY**  
5 **INTERESTS ARE URGED TO CONSULT THEIR TAX ADVISORS CONCERNING**  
6 **THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES**  
7 **APPLICABLE UNDER THE COMMISSION'S PLAN.**

8 **XIII. ALTERNATIVES TO CONFIRMATION AND**  
9 **CONSUMMATION OF THE COMMISSION'S PLAN**

10 If the Plan is not confirmed and consummated, the alternatives include (i) liquidation of  
11 the Debtor under chapter 7 of the Bankruptcy Code and (ii) the preparation and presentation of  
12 an alternative plan or plans of reorganization.

13 **A. Liquidation Under Chapter 7**

14 If no chapter 11 plan can be confirmed, the Chapter 11 Case may be converted to a case  
15 under chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to  
16 liquidate the assets of the Debtor. A discussion of the effect that a chapter 7 liquidation would  
17 have on the recoveries of holders of Claims and Equity Interests is set forth in Section VII.C.4.  
18 of this Disclosure Statement. The Commission believes that liquidation under chapter 7 would  
19 result in, among other things, (i) smaller distributions being made to creditors than those  
20 provided for in the Plan because of additional administrative expenses attendant to the  
21 appointment of a trustee and the trustee's employment of attorneys and other professionals,  
22 (ii) additional expenses and claims, some of which would be entitled to priority, which would be  
23 generated during the liquidation and from the rejection of leases and other executory contracts in  
24 connection with a cessation of the Debtor's operations and (iii) the failure to realize the greater  
25 going concern value of the Debtor's assets.

26 **B. Alternative Plan Of Reorganization**

27 If the Commission's Plan is not confirmed, the PG&E Plan, or a different plan formulated  
28 by the Debtor or the Commission or any other party in interest could be proposed. Such a plan



1 might involve either a reorganization and the disaggregation of the Debtor's business, as  
2 proposed in the PG&E Plan, or an orderly liquidation of its assets. The Commission has  
3 concluded that the Commission's Plan represents the best alternative to protect the interests of  
4 creditors and other parties in interest.

5 **C. Liquidation Under Chapter 11**

6 The Commission believes that the Commission's Plan enables the Debtor to successfully  
7 and expeditiously emerge from chapter 11 and preserve its business, and allows creditors to  
8 realize the highest recoveries under the circumstances. In a liquidation under chapter 11 of the  
9 Bankruptcy Code, the assets of the Debtor would be sold in an orderly fashion, which could  
10 occur over a more extended period of time than in a liquidation under chapter 7 and a trustee  
11 need not be appointed. Accordingly, creditors may receive greater recoveries than in a chapter 7  
12 liquidation. Although a chapter 11 liquidation may be preferable to a chapter 7 liquidation, the  
13 Commission believes that a liquidation under chapter 11 is a much less attractive alternative to  
14 creditors because a greater return to creditors is provided for in the Commission's Plan.

15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**XIV. CONCLUSION AND RECOMMENDATION**

The Commission believes that confirmation and implementation of the Commission's Plan is preferable to any of the alternatives described above because it will provide the greatest recoveries to holders of Allowed Claims and Allowed Equity Interests, and other alternatives would involve significant delay, uncertainty and substantial additional administrative costs. The Commission urges holders of impaired Claims and Equity Interests entitled to vote on the Commission's Plan to accept the Commission's Plan (and reject the PG&E Plan) indicate their preference for the Commission's Plan over the PG&E Plan, if applicable, and evidence such acceptance by returning their Ballots so that they will be received no later than 5:00 p.m., Eastern Time, on August 12, 2002.

Dated: May 17, 2002

THE CALIFORNIA PUBLIC UTILITIES COMMISSION

By: \_\_\_\_\_  
Gary M. Cohen  
General Counsel

APPROVED AS TO CONTENT AND FORM:  
PAUL, WEISS, RIFKIND, WHARTON & GARRISON

By: \_\_\_\_\_  
Attorneys for California Public Utilities Commission

**INDEX OF DEFINED TERMS**

	<b>Page</b>	<b>Page</b>
1		
2		
3	1976 Letter ..... 110	February 7 Decision ..... 62
4	1991 Settlement Agreement ..... 110	Financing ..... 96
5	92A Bonds ..... 144	Forbearance, Extension and Letter of Credit Fees ..... 84
6	92B Bonds ..... 144	FTCR ..... 68
7	93A Bonds ..... 144	headroom ..... 6
8	93B Bonds ..... 144	Hypothetical Affiliated Group ..... 101
9	96B Bonds ..... 145	IBEW ..... 36
10	96C Bonds ..... 145	Indenture ..... 144
11	96D Bonds ..... 145	Indentures ..... 144
12	96E Bonds ..... 145	Interest Portion ..... 149
13	96F Bonds ..... 145	ISO ..... 34, 44
14	96G Bonds ..... 145	Issuer ..... 144
15	97A Bonds ..... 145	IUSO ..... 36
16	97B Bonds ..... 145	kV ..... 34
17	97C Bonds ..... 145	LC Bank Agreement ..... 17
18	97D Bonds ..... 146	Letter of Credit ..... 148
19	AB ..... 42	Letter of Credit Backed PC Bonds ..... 146
20	Aguayo Litigation ..... 39	Letter of Credit Issuing Bank ..... 148
21	Amended Committee Support Agreement ..... 57	License Conditions ..... 110
22	APD ..... 110	Loan Agreement ..... 146
23	Bank ..... 148	Loan Agreements ..... 146
24	Board ..... 41	March 18 Order ..... 66
25	Bond Loan ..... 146	March 27 Order ..... 47
26	Bond Loans ..... 146	MBIA ..... 150
27	Bond Trustee ..... 144	MBIA Insured PC Bonds ..... 144
28	Calpine QFs ..... 55	MBIA Reimbursement Agreement ..... 150
	Cash Collateral Order ..... 17	Mortgage ..... 148
	CCSF ..... 66	Mortgage Backed PC Bonds ..... 146
	CEC ..... 36	Mortgage Bonds ..... 148
	Chanin ..... 1	MVa ..... 34
	Class 4e Stipulation ..... 61	MW ..... 34
	COD Income ..... 154	Net Open Position ..... 102
	Commission ..... 1	Nominee ..... 10
	Commission's Plan ..... 1	NOP ..... 102
	Committee ..... 49	NRC ..... 35
	Committee Support Agreement ..... 56	OID ..... 156
	Competing Plans ..... 2	OII ..... 68
	Confirmation Hearing ..... 2	Original Letter of Credit Fee ..... 84
	Court ..... 1	Parent Affiliated Group ..... 100
	Credit Facility ..... 25, 96	Paul Weiss ..... 1
	Debtor ..... 1	PC Bond Documents ..... 147
	Deconsolidation ..... 158	PC Bond Insurance Policy ..... 150
	Disclosure Statement ..... 1	PC Bonds ..... 144
	Disclosure Statement Order ..... 3	Petition Date ..... 1
	DWR ..... 47	PG&E ..... 1
	Edison ..... 37	PG&E Disclosure Statement ..... 2
	Environmental Order ..... 92	PG&E Plan ..... 2
	ESC ..... 36	Plan ..... 1
	Exclusivity Objection ..... 53	Post-Petition Interest ..... 16
	Exit Facility ..... 96	Principal Portion ..... 149

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

Prior Bonds..... 146  
Prior Letter of Credit..... 151  
Prior Letter of Credit Issuing Bank..... 151  
Prior Reimbursement Agreement..... 151  
Projection Period..... 133  
Projections..... 133  
Proponents..... 2  
PX..... 36, 44  
QFs..... 34  
Reimbursement Agreement..... 148  
Reimbursement Obligation..... 152  
SEC..... 3  
Sempra..... 59  
Sempra Gas Agreements..... 59

Settlement and Stanislaus Commitments 110  
Stated Amount..... 148  
Sub-Facility..... 96  
Support Termination Event..... 58  
Tax Code..... 153  
TCBA..... 43  
TIN..... 159  
TRA..... 43  
Treasury PC Bonds..... 146  
TURN..... 37  
URG Decision..... 67  
Voting Agent..... 10  
Voting Deadline..... 10

# **EXHIBIT A**

1 UNITED STATES BANKRUPTCY COURT  
2 NORTHERN DISTRICT OF CALIFORNIA  
3 SAN FRANCISCO DIVISION  
4

5 In re  
6 PACIFIC GAS AND ELECTRIC COMPANY,  
7 a California corporation,  
8 Debtor.  
9 Federal I.D. No. 94-0742640

Case No. 01-30923 DM  
Chapter 11 Case  
[No Hearing Requested]

10  
11 CALIFORNIA PUBLIC UTILITIES COMMISSION'S  
12 PLAN OF REORGANIZATION UNDER  
13 CHAPTER 11 OF THE BANKRUPTCY CODE FOR  
14 PACIFIC GAS AND ELECTRIC COMPANY  
15 [Dated May 17, 2002]

16 Counsel for the California Public Utilities  
17 Commission:

18 Gary M. Cohen  
19 Arocles Aguilar  
20 Michael M. Edson  
21 CALIFORNIA PUBLIC UTILITIES  
22 COMMISSION  
23 505 Van Ness Avenue  
24 San Francisco, California 94111  
25 (415) 703-2782

Alan W. Kornberg  
Brian S. Hermann  
Susan E. Welber  
Marc F Skapof  
PAUL, WEISS, RIFKIND, WHARTON  
& GARRISON  
1285 Avenue of the Americas  
New York, New York 10019-6064  
(212) 373-3000

TABLE OF CONTENTS

	Page
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
ARTICLE I DEFINITIONS AND CONSTRUCTION OF TERMS.....	1
1.1 Definitions.....	1
1.2 Interpretation; Application of Definitions and Rules of Construction.....	27
ARTICLE II TREATMENT OF ADMINISTRATIVE EXPENSE CLAIMS, PROFESSIONAL COMPENSATION AND REIMBURSEMENT CLAIMS, AND PRIORITY TAX CLAIMS .....	27
2.1 Administrative Expense Claims.....	27
2.2 Professional Compensation and Reimbursement Claims.....	28
2.3 Priority Tax Claims .....	28
ARTICLE III CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS.....	29
ARTICLE IV TREATMENT OF CLAIMS AND EQUITY INTERESTS.....	31
4.1 Payment of Interest.....	31
4.2 Timing of Payments and Distributions.....	32
4.3 Class 1 - Other Priority Claims .....	33
4.4 Class 2 - Other Secured Claims.....	34
4.5 Class 3 - Secured Claims Relating to First and Refunding Mortgage Bonds.....	34
4.6 Class 4a - Mortgage Backed PC Bond Claims.....	35
4.7 Class 4b - MBIA Insured PC Bond Claims.....	36
4.8 Class 4c - MBIA Claims. ....	36
4.9 Class 4d - Letter of Credit Backed PC Bond Claims. ....	37
4.10 Class 4e - Letter of Credit Bank Claims. ....	37
4.11 Class 4f - Prior Bond Claims.....	43
4.12 Class 4g - Treasury PC Bond Claims.....	45
4.13 Class 5 - General Unsecured Claims.....	45
4.14 Class 6 - ISO, PX and Generator Claims. ....	46
4.15 Class 7 - ESP Claims.....	46
4.16 Class 8 – Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims. ....	46
4.17 [Intentionally Left Blank].....	49
4.18 Class 10 - Convenience Claims.....	49
4.19 Class 11 - QUIDS Claims. ....	49
4.20 Class 12- Workers’ Compensation Claims. ....	50
4.21 Class 13 - Preferred Stock Equity Interests.....	50
4.22 Class 14 - Common Stock Equity Interests.....	51
ARTICLE V PROVISIONS REGARDING VOTING AND DISTRIBUTIONS UNDER THE PLAN AND TREATMENT OF DISPUTED, CONTINGENT AND UNLIQUIDATED ADMINISTRATIVE EXPENSE CLAIMS, CLAIMS AND EQUITY INTERESTS .....	51
5.1 Voting of Claims and Equity Interests .....	51
5.2 Elimination of Vacant Classes .....	51
5.3 Nonconsensual Confirmation.....	52
5.4 Method of Distributions Under the Plan .....	52
5.5 Objections to and Resolution of Administrative Expense Claims and Claims.....	55
5.6 Payment of the Trustees’, Issuer’s and Certain Bank Fees .....	55
5.7 Cancellation of Existing Securities and Agreements .....	56

1 ARTICLE VI EXECUTORY CONTRACTS AND UNEXPIRED LEASES..... 56

2     6.1 Assumption and Rejection of Executory Contracts and Unexpired Leases ..... 56

3     6.2 Schedules of Rejected Executory Contracts and Unexpired Leases;  
4         Inclusiveness ..... 58

5     6.3 Approval of Assumption or Rejection of Executory Contracts and  
6         Unexpired Leases ..... 58

7     6.4 Cure of Defaults ..... 59

8     6.5 Bar Date for Filing Proofs of Claim Relating to Executory Contracts and  
9         Unexpired Leases Rejected Pursuant to, or Omitted from, the Plan..... 59

10     6.6 Assumed Indemnification Obligations. .... 59

11     6.7 Compensation and Benefit Programs. .... 59

12     6.8 Retiree Benefits. .... 60

13     6.9 Settlement and Stanislaus Commitments/Natural Gas..... 61

14 ARTICLE VII IMPLEMENTATION OF THE PLAN ..... 62

15     7.1 Issuance of Securities ..... 62

16     7.2 Settlement of Litigation..... 63

17     7.3 New Tax Sharing Agreement. .... 63

18     7.4 Corporate Governance..... 63

19     7.5 Regulatory Approvals ..... 64

20     7.6 Working Capital Facility..... 64

21     7.7 Regulatory Issues ..... 65

22 ARTICLE VIII CONFIRMATION AND EFFECTIVENESS OF THE PLAN..... 65

23     8.1 Conditions Precedent to Confirmation..... 65

24     8.2 Conditions Precedent to Effectiveness..... 65

25     8.3 Effect of Failure of Conditions..... 66

26     8.4 Waiver of Conditions ..... 67

27 ARTICLE IX EFFECT OF CONFIRMATION OF PLAN ..... 67

28     9.1 Term of Bankruptcy Injunction or Stays..... 67

   9.2 Revesting of Assets ..... 67

   9.3 Operations Following Effective Date..... 67

   9.4 Claims Extinguished ..... 67

   9.5 Discharge of Debtor ..... 68

   9.6 Injunction ..... 68

ARTICLE X RETENTION OF JURISDICTION ..... 69

ARTICLE XI MISCELLANEOUS PROVISIONS..... 70

   11.1 Effectuating Documents and Further Transactions ..... 70

   11.2 Corporate Action..... 70

   11.3 Exemption from Transfer Taxes ..... 71

   11.4 Releases by Debtor..... 71

   11.5 Limited Release by Releasees ..... 72

   11.6 Exculpation..... 72

   11.7 Termination of Committee ..... 73

   11.8 Fees and Expenses..... 73

   11.9 Payment of Statutory Fees..... 74

   11.10 Amendment or Modification of the Plan..... 74

   11.11 Severability..... 75

   11.12 Revocation or Withdrawal of the Plan ..... 75

   11.13 Binding Effect ..... 75

   11.14 Notices..... 75

   11.15 Governing Law..... 77

   11.16 Withholding and Reporting Requirements..... 77

   11.17 Commission’s Plan Supplement. : ..... 77

   11.18 Exhibits/Schedules ..... 78



1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

11.19 Subrogation Rights..... 78



1                   96B Bonds means those certain California Pollution Control Financing Authority,  
2 Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series B  
3 issued by the Issuer in the aggregate principal amount of \$160,000,000.

4                   96C Bonds means those certain California Pollution Control Financing Authority,  
5 Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series C  
6 issued by the Issuer in the aggregate principal amount of \$200,000,000.

7                   96D Bonds means those certain California Pollution Control Financing Authority,  
8 Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series D  
9 issued by the Issuer in the aggregate principal amount of \$100,000,000.

10                  96E Bonds means those certain California Pollution Control Financing Authority,  
11 Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series E  
12 issued by the Issuer in the aggregate principal amount of \$165,000,000.

13                  96F Bonds means those certain California Pollution Control Financing Authority,  
14 Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series F  
15 issued by the Issuer in the aggregate principal amount of \$100,000,000.

16                  96G Bonds means those certain California Pollution Control Financing Authority,  
17 Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series G  
18 issued by the Issuer in the aggregate principal amount of \$62,870,000.

19                  97A Bonds means those certain California Pollution Control Financing Authority,  
20 Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series A  
21 issued by the Issuer in the aggregate principal amount of \$45,000,000.

22                  97B Bonds means those certain California Pollution Control Financing Authority,  
23 Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series B  
24 issued by the Issuer in the aggregate principal amount of \$148,550,000.

25                  97C Bonds means those certain California Pollution Control Financing Authority,  
26 Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series C  
27 issued by the Issuer in the aggregate principal amount of \$148,550,000.

1                   97D Bonds means those certain California Pollution Control Financing Authority,  
2 Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series D  
3 issued by the Issuer in the aggregate principal amount of \$17,900,000.

4                   Administrative Expense Claims means all Claims against the Debtor constituting  
5 a cost or expense of administration of the Chapter 11 Case under sections 503(b) and 507(a)(1)  
6 of the Bankruptcy Code, including, without limitation, all actual and necessary costs and  
7 expenses of preserving the Debtor's estate, all actual and necessary costs and expenses of  
8 operating the business of the Debtor-in-Possession, any indebtedness or obligations incurred or  
9 assumed by the Debtor-in-Possession in connection with the conduct of its business, all cure  
10 amounts owed in respect of executory contracts and unexpired leases assumed by the Debtor-in-  
11 Possession, all Professional Compensation and Reimbursement Claims, and any fees or charges  
12 assessed against the Debtor's estate under section 1930 of chapter 123 of title 28 of the United  
13 States Code.

14                   Affiliate has the meaning set forth in section 101(2) of the Bankruptcy Code.

15                   Allowed means, with reference to any Claim against or Equity Interest in the  
16 Debtor, (a) any Claim which has been listed by the Debtor in the Debtor's Bankruptcy  
17 Schedules, as such Schedules may be amended by the Debtor from time to time in accordance  
18 with Bankruptcy Rule 1009, as liquidated in amount and not disputed or contingent and for  
19 which no contrary proof of claim or objection to claim has been filed, (b) any Claim or Equity  
20 Interest allowed hereunder, (c) any Claim or Equity Interest which is not Disputed, (d) any Claim  
21 or Equity Interest that is compromised, settled or otherwise resolved pursuant to a Final Order of  
22 the Bankruptcy Court or under the Plan, or (e) any Claim or Equity Interest which, if Disputed,  
23 has been Allowed by Final Order; provided, however, that Claims allowed solely for the purpose  
24 of voting to accept or reject this Plan or PG&E's Plan pursuant to an order of the Bankruptcy  
25 Court shall not be considered "Allowed Claims" hereunder. Unless otherwise specified herein or  
26 by order of the Bankruptcy Court, "Allowed Administrative Expense Claim" or "Allowed  
27 Claim" shall not, for any purpose under the Plan, include interest on such Administrative  
28 Expense Claim or Claim, as the case may be, from and after the Petition Date.

1                   Assumed Corporate Indemnities means all obligations of the Debtor, pursuant to  
2 the Debtor's articles of incorporation or bylaws, applicable state law or specific agreement, or  
3 any combination of the foregoing, to defend or indemnify, or to reimburse or limit the liability  
4 of, its present and any former officers, directors and/or employees who were officers, directors  
5 and/or employees, respectively, on or after the Petition Date, solely in their capacities as officers,  
6 directors and/or employees of the Debtor, against or with respect to any claims or obligations.

7                   Assumed Indemnification Claims mean all Claims, if any, as to which the  
8 claimant asserts rights based only upon the Assumed Corporate Indemnities.

9                   Ballot means the form distributed to each holder of an Impaired Claim or Equity  
10 Interest on which such holder shall indicate, among other things, acceptance or rejection of the  
11 Plan and such holder's preference as between this Plan and PG&E's Plan.

12                   Bank means, with respect to each Reimbursement Agreement, those certain  
13 banking or other financial institutions that are signatories thereto (other than the Letter of Credit  
14 Issuing Bank) and their respective successors and assigns.

15                   Bankruptcy Code has the meaning set forth in the introduction to the Plan.

16                   Bankruptcy Court means the United States Bankruptcy Court for the Northern  
17 District of California having jurisdiction over the Chapter 11 Case.

18                   Bankruptcy Rules means the Federal Rules of Bankruptcy Procedure as  
19 promulgated by the United States Supreme Court under section 2075 of title 28 of the United  
20 States Code and any Local Rules of the Bankruptcy Court.

21                   Bond Loan means, with respect to each series of PC Bonds, the loan of the  
22 proceeds from the sale of such series of PC Bonds made by the Issuer to the Debtor pursuant to  
23 the terms of the respective Loan Agreement.

24                   Bond Trustee means, with respect to the PC Bonds, Bankers Trust Company, a  
25 state banking corporation organized under the laws of the State of New York, as trustee, or U.S.  
26 Bank Trust National Association, as trustee, under the Indenture pursuant to which such PC  
27 Bonds were issued, as applicable, and their successors and assigns or any successor trustee under  
28 such Indentures appointed in accordance with the terms thereof.

1                    Business Day means any day other than a Saturday, Sunday or any other day on  
2 which commercial banks in San Francisco, California or New York, New York are required or  
3 authorized to close by law or executive order.

4                    Cash means legal tender of the United States of America.

5                    Cause of Action means, without limitation, any and all actions, causes of action,  
6 liabilities, obligations, rights, suits, damages, judgments, claims and demands whatsoever,  
7 whether known or unknown, existing or hereafter arising, in law, equity or otherwise, based in  
8 whole or in part upon any act or omission or other event occurring prior to the Petition Date or  
9 during the course of the Chapter 11 Case, including through the Effective Date.

10                   Chapter 11 Case means the case under chapter 11 of the Bankruptcy Code  
11 commenced by the Debtor in the Bankruptcy Court on April 6, 2001 and filed under Chapter 11,  
12 Case No. 01-30923-DM.

13                   Chromium Litigation means Causes of Action against the Debtor relating to  
14 alleged chromium contamination, including, but not limited to, the following sixteen (16) civil  
15 actions pending in California courts: (i) Aguayo v. Pacific Gas and Electric Company, filed  
16 March 15, 1995 in Los Angeles County Superior Court, (ii) Aguilar v. Pacific Gas and Electric  
17 Company, filed October 4, 1996 in Los Angeles County Superior Court, (iii) Acosta, et al. v.  
18 Betz Laboratories, Inc. et al., filed November 27, 1996 in Los Angeles County Superior Court,  
19 (iv) Adams v. Pacific Gas and Electric Company and Betz Chemical Company, filed July 25,  
20 2000 in Los Angeles County Superior Court, (v) Baldonado v. Pacific Gas and Electric  
21 Company, filed October 25, 2000 in Los Angeles Superior Court, (vi) Gale v. Pacific Gas and  
22 Electric Company, filed January 30, 2001 in Los Angeles County Superior Court, (vii) Monice v.  
23 Pacific Gas & Electric Company, filed March 15, 2001 in San Bernardino County Superior  
24 Court, (viii) Fordyce v. Pacific Gas & Electric Company, filed March 16, 2001 in San  
25 Bernardino County Superior Court, (ix) Puckett v. Pacific Gas & Electric Company, filed  
26 March 30, 2001 in Los Angeles County Superior Court, (x) Alderson, et al. v. PG&E  
27 Corporation, Pacific Gas and Electric Company, Betz Chemical Company, et al., filed April 11,  
28 2001 in Los Angeles County Superior Court, (xi) Bowers et al. v. Pacific Gas and Electric

1 Company, et al., filed April 20, 2001 in Los Angeles County Superior Court, (xii) Boyd et al. v.  
2 Pacific Gas and Electric Company, et al., filed May 2, 2001 in Los Angeles County Superior  
3 Court, (xiii) Martinez et al. v. Pacific Gas and Electric Company, filed June 29, 2001 in  
4 Los Angeles County Superior Court, (xiv) Kearny v. Pacific Gas and Electric Company, filed  
5 November 15, 2001 in Los Angeles County Superior Court, (xv) Miller v. Pacific Gas and  
6 Electric Company, filed November 21, 2001 in Los Angeles County Superior Court, and (xvi)  
7 Lytle v. Pacific Gas and Electric Company, filed March 22, 2002 in Yolo County Superior  
8 Court.

9 Chromium Litigation Claims means all Claims against the Debtor arising from the  
10 Chromium Litigation for damages or other obligations, including Punitive Damages; provided,  
11 however, that Chromium Litigation Claims shall not include (a) any Claims, settled, liquidated or  
12 determined by Final Order or a binding award, agreement or settlement prior to the Petition Date  
13 for amounts payable by the Debtor for damages or other obligations in a fixed dollar amount  
14 payable in a lump sum or by a series of payments (which Claims are classified as General  
15 Unsecured Claims), (b) Environmental Claims, (c) Fire Suppression Claims, (d) Pending  
16 Litigation Claims, or (e) FERC License Claims.

17 Claim has the meaning set forth in section 101(5) of the Bankruptcy Code,  
18 provided, however, that any claim based on allocations under CPUC Electric Rule 20, Section A,  
19 relating to undergrounding of electric distribution facilities, shall not be a Claim for purposes of  
20 this Plan and shall pass through the Plan unaffected.

21 Class means a category of holders of Claims against or Equity Interests in the  
22 Debtor as set forth in Articles III and IV of the Plan.

23 Clerk means the Clerk of the Bankruptcy Court.

24 Collateral means any property or interest in property of the estate of the Debtor  
25 subject to a Lien to secure the payment or performance of a Claim, which Lien is not subject to  
26 avoidance or otherwise invalid under the Bankruptcy Code or applicable state law.

27 Commercial Paper means short-term promissory notes of the Debtor bearing  
28 various interest rates based on the three (3) month London InterBank Offered Rate and issued

1 under commercial paper dealer agreements between the Debtor and (i) Goldman Sachs & Co.,  
2 dated May 30, 1997, (ii) Bank of America, N.A., dated February 7, 1985, (iii) Salomon Smith  
3 Barney, Inc., dated November 10, 2000, and (iv) Merrill Lynch, Pierce, Fenner & Smith  
4 Incorporated (oral agreement).

5 Commercial Paper Claim means all Claims against the Debtor arising from  
6 Commercial Paper.

7 Commission has the meaning set forth in the introduction to the Plan.

8 Commission's Plan Supplement means the documents, schedules and other  
9 instruments to be filed with the Bankruptcy Court in accordance with section 11.17 of the Plan,  
10 as amended, modified or supplemented from time to time.

11 Committee means the official Committee of Unsecured Creditors appointed in the  
12 Chapter 11 Case by the United States Trustee pursuant to section 1102 of the Bankruptcy Code,  
13 as reconstituted from time to time. As of the date hereof, the Committee is comprised of Reliant  
14 Energy, Inc., Dynegy Power Marketing, Inc., P-E Berkeley, Inc., GWF Power Systems  
15 Company, Inc., Bank of America, N.A., Morgan Guaranty, Merrill Lynch, Pierce, Fenner &  
16 Smith, Incorporated, Davey Tree Expert Co., the City of Palo Alto, California, the State of  
17 Tennessee and Pacific Investment Management Company LLC.

18 Committee Support Agreement means that certain Support Agreement, dated  
19 September 19, 2001, entered into by and among the Committee, the Debtor and the Parent, as  
20 amended from time to time.

21 Common Stock means shares of the Debtor's common stock, par value \$5.00 per  
22 share.

23 Common Stock Equity Interests means any right relating to the three hundred  
24 twenty-six million, nine hundred twenty-six thousand, six hundred sixty-seven (326,926,667)  
25 issued and outstanding shares of Common Stock as of the date hereof, all of which are held  
26 directly or indirectly by the Parent.

27 Confirmation Date means the date on which the Clerk of the Bankruptcy Court  
28 enters the Confirmation Order on the Bankruptcy Court's docket.



1                   Confirmation Hearing means the hearing held by the Bankruptcy Court to  
2 consider confirmation of the Plan pursuant to section 1128 of the Bankruptcy Code, as such  
3 hearing may be adjourned or continued from time to time.

4                   Confirmation Order means the order of the Bankruptcy Court confirming the Plan  
5 pursuant to section 1129 of the Bankruptcy Code, which order shall be in form and substance  
6 reasonably satisfactory to the Commission.

7                   Convenience Claims means all Claims against the Debtor held by a vendor,  
8 supplier or service provider or arising from the rejection of executory contracts or unexpired  
9 leases under section 365 of the Bankruptcy Code (a) in the Allowed amount of \$100,000 or less,  
10 or (b) consensually reduced to an Allowed amount of \$100,000 by the holder of the Claim.

11                   CPU Code means the California Public Utilities Code.

12                   Debtor has the meaning set forth in the introduction to the Plan.

13                   Debtor-in-Possession means the Debtor in its capacity as debtor-in-possession in  
14 the Chapter 11 Case pursuant to sections 1101, 1107(a) and 1108 of the Bankruptcy Code.

15                   Debtor's Articles of Incorporation means the Debtor's Restated Articles of  
16 Incorporation, effective as of May 6, 1998.

17                   Debtor's Bankruptcy Schedules means the schedules of assets and liabilities,  
18 schedule of current income and expenditures, schedule of executory contracts and unexpired  
19 leases, and statement of financial affairs filed in this Chapter 11 Case by the Debtor pursuant to  
20 section 521 of the Bankruptcy Code and Bankruptcy Rule 1007, as amended from time to time.

21                   Debtor's Bylaws means the Debtor's Bylaws, as amended as of February 21,  
22 2001.

23                   Disbursing Agent means any Entity in its capacity as a disbursing agent under  
24 Section 5.4 of the Plan.

25                   Disclosure Statement means the Disclosure Statement for the Commission's Plan  
26 of Reorganization under Chapter 11 of the Bankruptcy Code for the Debtor, dated May 17, 2002,  
27 including, without limitation, all exhibits and schedules thereto, as approved by the Bankruptcy  
28 Court pursuant to the Disclosure Statement Order.

1                    Disclosure Statement Order means the order of the Bankruptcy Court entered  
2 pursuant to section 1125 of the Bankruptcy Code approving the Disclosure Statement.

3                    Disputed Claim means, (a) with reference to any Claim against the Debtor, proof  
4 of which was timely and properly filed, or in the case of an Administrative Expense Claim, any  
5 Claim or Administrative Expense Claim, as the case may be, which is disputed under the Plan or  
6 as to which the Debtor has interposed a timely objection and/or request for estimation in  
7 accordance with section 502(c) of the Bankruptcy Code and/or Bankruptcy Rule 3018, which  
8 objection and/or request for estimation has not been withdrawn or determined by a Final Order,  
9 and (b) any Claim against the Debtor, proof of which was required to be filed by order of the  
10 Bankruptcy Court or pursuant to applicable law, but as to which a proof of claim was not timely  
11 or properly filed. A Claim that is Disputed by the Debtor as to its amount only shall be deemed  
12 Allowed in the amount the Debtor admits owing, if any, and Disputed as to the excess.

13                    Disputed Claim Amount means the disputed portion of the amount set forth in the  
14 proof of claim relating to a Disputed Claim or, if an amount is estimated in respect of a Disputed  
15 Claim in accordance with section 502(c) of the Bankruptcy Code and/or Bankruptcy Rule 3018,  
16 the amount so estimated pursuant to an order of the Bankruptcy Court.

17                    Distribution Record Date means the close of business two (2) Business Days prior  
18 to the Effective Date.

19                    Effective Date means the second (2<sup>nd</sup>) Business Day after the date on which the  
20 conditions specified in Section 8.2 hereof have been satisfied or waived.

21                    Entity has the meaning set forth in section 101(15) of the Bankruptcy Code.

22                    Environmental, Fire Suppression, Pending Litigation, Tort and FERC License  
23 Claims means all Environmental Claims, Fire Suppression Claims, Pending Litigation Claims,  
24 Tort Claims and FERC License Claims.

25                    Environmental Claims means all Claims against the Debtor arising from any  
26 accusation, allegation, notice of violation, action, claim, environmental Lien, demand, abatement  
27 or other order, restriction or direction (conditional or otherwise) by any Governmental Entity or  
28 any other Person for personal injury (including, but not limited to, sickness, disease or death),

1 tangible or intangible property damage, Punitive Damages, damage to the environment,  
2 nuisance, pollution, contamination or other adverse effect on the environment or costs (to the  
3 extent recoverable under applicable non-bankruptcy law) of any Governmental Entity related  
4 thereto, in each case resulting from or based upon (a) the existence, or the continuation of the  
5 existence, of a release of (including, but not limited to, sudden or non-sudden accidental or non-  
6 accidental releases), or exposure to, any hazardous or deleterious material, substance, waste,  
7 pollutant or contaminant, odor or audible noise in, into or onto the environment (including, but  
8 not limited to, the air, soil, surface water or groundwater) at, in, by, from or related to any  
9 property (including any vessels or facilities of the Debtor) presently or formerly owned, operated  
10 or leased by the Debtor or any activities or operations thereon, (b) the transportation, storage,  
11 treatment or disposal of any hazardous or deleterious material, substance, waste, pollutant or  
12 contaminant in connection with any property presently or formerly owned, operated or leased by  
13 the Debtor or its operations or facilities, or (c) the violation or alleged violation, of any  
14 environmental law, order or environmental permit or license of or from any Governmental Entity  
15 relating to environmental matters connected with any property presently or formerly owned,  
16 operated or leased by the Debtor, provided, however, that Environmental Claims shall not  
17 include (i) any Claims fully settled, liquidated or determined by a Final Order or a binding  
18 award, agreement or settlement prior to the Petition Date for amounts payable by the Debtor for  
19 damages or other obligations in a fixed dollar amount payable in a lump sum or by a series of  
20 payments (which Claims are classified as General Unsecured Claims), (ii) Tort Claims, (iii) Fire  
21 Suppression Claims, (iv) Pending Litigation Claims, or (v) FERC License Claims.

22 Environmental Order has the meaning set forth in Section 4.16(b) hereof.

23 Equity Interest means any share of Common Stock, Preferred Stock or other  
24 instrument evidencing an ownership interest in the Debtor, whether or not transferable, and any  
25 option, warrant or other right, contractual or otherwise, to acquire any such interest.

26 ERISA means the Employee Retirement Income Security Act of 1974, as  
27 amended.

28 ESP means energy service provider.

1                    ESP Claims means all Claims against the Debtor arising from PX energy credits  
2 payable by the Debtor to ESPs.

3                    Existing Tax Sharing Agreement means that agreement, dated as of January 1,  
4 1997, for the allocation of income tax liability between the Debtor and the Parent.

5                    Exit Facility has the meaning set forth in Section 7.6 hereof.

6                    Federal Judgment Rate means the interest rate allowed pursuant to section 1961 of  
7 title 28 of the United States Code, as amended, as published by the Board of Governors of the  
8 Federal Reserve System for the calendar week that preceded the Petition Date.

9                    Fed. Rules Civ. Pro. means the Federal Rules of Civil Procedure.

10                   FERC means the Federal Energy Regulatory Commission.

11                   FERC License Claims means all Claims against the Debtor held by a  
12 Governmental Entity arising from or under FERC licenses, including, but not limited to, Belden  
13 FERC License 2015 (including fish stocking requirements set forth therein).

14                   Final Order means an order or decree of the Bankruptcy Court, or any other court  
15 of competent jurisdiction, as to which the time to appeal, petition for certiorari, or move for  
16 reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other  
17 proceedings for reargument or rehearing shall then be pending or as to which any right to appeal,  
18 petition for certiorari, reargue, or rehear shall have been waived in writing in form and substance  
19 satisfactory to the Debtor and the Commission or, in the event that an appeal, writ of certiorari,  
20 or reargument or rehearing thereof has been sought, such order or decree of the Bankruptcy  
21 Court or other court of competent jurisdiction shall have been determined by the highest court to  
22 which such order or decree was appealed, or certiorari, reargument or rehearing shall have been  
23 denied and the time to take any further appeal, petition for certiorari or move for reargument or  
24 rehearing shall have expired; provided, however, that the possibility that a motion under Rule 59  
25 or Rule 60 of the Fed. Rules Civ. Pro., or any analogous rule under the Bankruptcy Rules or  
26 applicable state court rules of civil procedure, may be filed with respect to such order or decree  
27 shall not prevent such order or decree from being a Final Order.

1                    Fire Suppression Claims means all Claims against the Debtor by any  
2 Governmental Entity for damages and costs resulting from a fire that may be recovered under  
3 either state or federal law, including, but not limited to, Claims for damages to property, the cost  
4 of restoring all property damaged as a result of the fire, the cost of compensating all other losses  
5 resulting from damage to property arising from a fire, and costs incurred in fighting a fire,  
6 including all investigative, administrative, accounting, collection, and other costs; provided,  
7 however, that the foregoing “including, but not limited to” description of the types of damages  
8 and costs that are included in this definition are for illustrative purposes only and do not  
9 constitute an acknowledgment or admission by the Debtor that any such damages or costs are in  
10 fact recoverable under state or federal law.

11                    First and Refunding Mortgage Bonds means (i) 6.250% First and Refunding  
12 Mortgage Bonds Series 93C due August 1, 2003, (ii) 6.25% First and Refunding Mortgage  
13 Bonds Series 93G due March 1, 2004, (iii) 5.875% First and Refunding Mortgage Bonds Series  
14 93E due October 1, 2005, (iv) variable rate First and Refunding Mortgage Bonds Series 81B due  
15 August 1, 2011, (v) 8.800% First and Refunding Mortgage Bonds Series 91A due May 1, 2024,  
16 (vi) 8.375% First and Refunding Mortgage Bonds Series 92B due May 1, 2025, (vii) 8.250%  
17 First and Refunding Mortgage Bonds Series 92D due November 1, 2022, (viii) 7.25% First and  
18 Refunding Mortgage Bonds Series 93A due March 1, 2026, (ix) 7.250% First and Refunding  
19 Mortgage Bonds Series 93D due August 1, 2026, (x) 6.750% First and Refunding Mortgage  
20 Bonds Series 93F due October 1, 2023, and (xi) 7.050% First and Refunding Mortgage Bonds  
21 Series 93H due March 1, 2024, each issued by the Debtor under the Mortgage, together with any  
22 Matured and Unpresented First and Refunding Mortgage Bonds, provided, that the Debtor is not  
23 waiving any rights or claims it may have under applicable non-bankruptcy law against any  
24 holder of any Matured and Unpresented First and Refunding Mortgage Bond or any other party  
25 with respect thereto.

26                    First and Refunding Mortgage Bond Documents means with respect to each series  
27 of First and Refunding Mortgage Bonds, the Mortgage, and all of the other documents,  
28 instruments, agreements and certificates evidencing, securing, governing or otherwise pertaining

1 to the respective Mortgage Loan or the respective series of First and Refunding Mortgage Bonds  
2 or otherwise executed and delivered by or on behalf of the Debtor in connection with any of the  
3 foregoing, together with all amendments, modifications, renewals, substitutions and  
4 replacements of or to any of the foregoing.

5 Floating Rate Note Claims means all Claims arising from the Floating Rate Notes.

6 Floating Rate Notes means the Floating Rate Notes due October 31, 2001, issued  
7 by the Debtor under an indenture by and between the Debtor and Wilmington Trust Company, as  
8 successor-in-interest to The Bank of New York, dated September 1, 1987, together with all  
9 amendments, modifications, renewals, substitutions and replacements thereof.

10 Forbearance, Extension and Letter of Credit Fees has the meaning set forth in  
11 Section 4.10(b)(iv) hereof.

12 General Unsecured Claim means (a) Revolving Line of Credit Claims,  
13 (b) Medium Term Note Claims, (c) Senior Note Claims, (d) Floating Rate Note Claims,  
14 (e) Southern San Joaquin Valley Power Authority Bond Claims, (f) Claims against the Debtor  
15 arising from the rejection of executory contracts and unexpired leases under section 365 of the  
16 Bankruptcy Code, (g) Claims against the Debtor relating to pre-petition litigation (other than  
17 Pending Litigation Claims, as defined above in this Section 1.1, which are classified as Class 8  
18 Claims), (h) Claims against the Debtor by the Debtor's vendors, suppliers and service providers,  
19 (i) Claims against the Debtor relating to intercompany obligations to Affiliates and (j)  
20 Commercial Paper Claims; provided, however, that General Unsecured Claims will not include  
21 any unsecured Claims included in any other Class.

22 Governmental Entity has the meaning set forth for a governmental unit in section  
23 101(27) of the Bankruptcy Code.

24 Impaired means any Class of Claims against or Equity Interests in the Debtor that  
25 is impaired within the meaning of section 1124 of the Bankruptcy Code.

26 Indenture means, with respect to each series of PC Bonds, that certain indenture  
27 of trust between the Issuer and the Bond Trustee pursuant to which such series of PC Bonds were  
28

1 issued, as originally executed, together with all amendments, modifications, renewals,  
2 substitutions and replacements thereof.

3 Initial Calculation Date means (i) February 28, 2002 with respect to holders of  
4 Allowed Claims in Class 5 for Senior Indebtedness, holders of Allowed Southern San Joaquin  
5 Valley Power Authority Bond Claims and holders of Allowed Claims in Classes 4c, 4f, 4g and  
6 11, and (ii) June 30, 2002 with respect to the remaining holders of Allowed Claims in Class 5  
7 and the holders of Allowed Claims in Classes 1, 2, 6, 7 and 10.

8 Interest Period means the period commencing on any interest payment date  
9 specified herein and ending on the day preceding the next succeeding interest payment date;  
10 except in respect of the first interest period which extends to June 30, 2002, where the Interest  
11 Period shall commence on the earlier of the Petition Date or the date specified on Exhibit 1  
12 hereto and shall end on June 30, 2002 and the second interest period shall commence on July 1,  
13 2002.

14 Investment Grade Credit Rating means credit ratings from S&P of BBB- or better  
15 and Moody's of Baaa3 or better.

16 IRS means the United States Internal Revenue Service.

17 ISO means the California Independent System Operator.

18 ISO, PX and Generator Claims means all Claims against the Debtor arising from  
19 amounts due to the ISO, PX and various power generators based on purchases of electricity or  
20 ancillary services by the Debtor in markets operated by the PX and the ISO.

21 Issuer means the California Pollution Control Financing Authority, a public  
22 instrumentality and political subdivision of the State of California, organized and existing under  
23 the California Pollution Control Financing Authority Act, being Division 27 (commencing at  
24 Section 44500) of the California Health and Safety Code, as supplemented and amended.

25 LC Bank Agreement has the meaning set forth in Section 4.2(b) hereof.

26 Letter of Credit means, with respect to each series of Letter of Credit Backed PC  
27 Bonds, that certain irrevocable direct pay letter of credit issued by the Letter of Credit Issuing  
28 Bank for the account of the Debtor to the Bond Trustee and delivered to the Bond Trustee in

1 accordance with the terms of the respective Indenture, securing, among other things, the payment  
2 of the principal of, and interest on, the respective series of Letter of Credit Backed PC Bonds,  
3 together with all amendments, modifications, renewals, substitutions and replacements thereof.

4 Letter of Credit Backed PC Bond Claims means all Claims against the Debtor by  
5 the Issuer, Bond Trustee and the holders of Letter of Credit Backed PC Bonds for all amounts  
6 due and owing by the Debtor under the Loan Agreements and each of the other PC Bond  
7 Documents executed by the Debtor in connection with the issuance of each series of Letter of  
8 Credit Backed PC Bonds.

9 Letter of Credit Backed PC Bonds means collectively, any series of 96C Bonds,  
10 96E Bonds, 96F Bonds and/or 97B Bonds that are outstanding as of the Voting Record Date or  
11 the Effective Date, as applicable.

12 Letter of Credit Issuing Bank means, with respect to each series of Letter of  
13 Credit Backed PC Bonds, the issuer of the Letter of Credit.

14 Letter of Credit Bank Claims means all Claims against the Debtor relating to  
15 (a) the contingent Claims of each Letter of Credit Issuing Bank and the applicable Banks, if any,  
16 with respect to payments which may become due by the Debtor under their respective  
17 Reimbursement Agreements (as modified by the LC Bank Agreement), including, without  
18 limitation, any and all amounts due by the Debtor as reimbursement of amounts paid by a Letter  
19 of Credit Issuing Bank under its Letter of Credit to the Bond Trustee for the payment of interest  
20 on the related Letter of Credit Backed PC Bonds and any and all interest and fees due thereunder,  
21 and (b) the Claims of the Letter of Credit Issuing Banks and the applicable Banks, if any, for any  
22 and all accrued and unpaid amounts due by the Debtor under their respective Reimbursement  
23 Agreements (as modified by the LC Bank Agreement), including amounts due as reimbursement  
24 of amounts paid by each Letter of Credit Issuing Bank under its respective Letter of Credit to the  
25 Bond Trustee for the payment of interest on the related series of Letter of Credit Backed PC  
26 Bonds and any and all fees due thereunder.

27 LIBOR means, with respect to each Interest Period, the rate per annum appearing  
28 on Bloomberg Professional page BBAM1 (or any successor page) as the London interbank



1 offered rate for deposits in U.S. dollars having the index maturity designated by the Debtor at  
2 approximately 11:00 a.m. (London time) on the LIBOR Interest Determination Date. If no rate  
3 appears on Bloomberg Professional page BBAM1, LIBOR shall mean the rate per annum  
4 appearing on Bridge Telerate Inc. page 3750 (or any successor page) as the London interbank  
5 offered rate for deposits in U.S. dollars having the index maturity designated by the Debtor at  
6 approximately 11:00 a.m. (London time) on the LIBOR Interest Determination Date. If no rate  
7 appears on Bridge Telerate page 3750, the Debtor will request the principal London offices of  
8 each of four (4) major reference banks in the London interbank market, as selected by the  
9 Debtor, to provide the Debtor with its offered quotation for deposits in U.S. dollars having the  
10 index maturity designated by the Debtor to prime banks in the London interbank market at  
11 approximately 11:00 a.m. (London time) on such LIBOR Interest Determination Date and in a  
12 principal amount that is representative of a single transaction in U.S. dollars in such market at  
13 such time. LIBOR determined will be the arithmetic mean of the offered quotations. If fewer  
14 than two (2) quotations are provided, LIBOR determined on such LIBOR Interest Determination  
15 Date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. in New York  
16 City on such LIBOR Interest Determination Date, by three (3) major banks in New York City  
17 selected by the Debtor for loans in U.S. dollars to leading European banks, having the index  
18 maturity designated by the Debtor that is representative for a single transaction in U.S. dollars in  
19 such market at such time. If the banks so selected are not quoting as mentioned above, LIBOR  
20 will remain LIBOR in effect on such LIBOR Interest Determination Date.

21 LIBOR Interest Determination Date means, for an Interest Period, the second  
22 (2<sup>nd</sup>) London Business Day immediately preceding the first day of that Interest Period; except  
23 that in the period prior to the Initial Calculation Date, the LIBOR Interest Determination Dates  
24 for (a) Allowed Claims under International Swap Dealers Association (“ISDA”) Agreements  
25 shall be the Petition Date and each anniversary thereof prior to the Initial Calculation Date, and  
26 (b) Allowed Claims for power generators shall be determined between the Debtor and each such  
27 power generator, notwithstanding the fact that none of such dates is an interest payment date.

28 Lien has the meaning set forth in section 101(37) of the Bankruptcy Code.

1                    Loan Agreement means, with respect to each series of PC Bonds, that certain loan  
2 agreement by and between the Issuer and the Debtor with respect to such series of PC Bonds, as  
3 originally executed, together with all amendments, modifications, renewals, substitutions and  
4 replacements thereof.

5                    Master Ballot means the Ballot to be completed by Nominees of beneficial  
6 owners of bonds, notes, debentures or shares of stock of the Debtor.

7                    Matured and Unpresented First and Refunding Mortgage Bonds means,  
8 collectively, that portion of the Debtor's (a) First and Refunding Mortgage Bonds, Series II,  
9 4.25%, (b) First and Refunding Mortgage Bonds, Series JJ, 4.5%, (c) First and Refunding  
10 Mortgage Bonds, Series LL, 4.625%, (d) First and Refunding Mortgage Bonds, Series MM,  
11 5.375%, (e) First and Refunding Mortgage Bonds, Series NN, 5.75%, (f) First and Refunding  
12 Mortgage Bonds, Series OO, 5.50%, and (g) First and Refunding Mortgage Bonds, 8% Series  
13 92C, to the extent that (i) such matured bonds have not been presented for payment by the  
14 holders thereof, and (ii) the Debtor is obligated to pay the principal of, and interest on, such  
15 bonds in accordance with the terms thereof under applicable law, provided that the Debtor is not  
16 waiving any rights or claims it may have under applicable non-bankruptcy law against any  
17 holder of any such bond or any other party with respect thereto.

18                    MBIA means MBIA Insurance Corporation.

19                    MBIA Claims means all Claims against the Debtor relating to (a) the contingent  
20 Claims of MBIA with respect to payments which may become due by the Debtor under the terms  
21 of the MBIA Reimbursement Agreement as reimbursement for payments made by MBIA under  
22 the PC Bond Insurance Policy, and (b) the Claims of MBIA for any and all accrued and unpaid  
23 amounts due by the Debtor under the MBIA Reimbursement Agreement, including any and all  
24 amounts due by the Debtor as reimbursement of amounts paid by MBIA under the PC Bond  
25 Insurance Policy to the Bond Trustee for the payment of interest on the MBIA Insured PC  
26 Bonds.

27                    MBIA Insured PC Bond Claims means all Claims against the Debtor by the  
28 Issuer, Bond Trustee and the holders of the MBIA Insured PC Bonds for all amounts due and

1 owing by the Debtor under the Loan Agreements and each of the other PC Bond Documents  
2 executed by the Debtor in connection with the issuance of each series of MBIA Insured PC  
3 Bonds.

4 MBIA Insured PC Bonds means those certain California Pollution Control  
5 Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric  
6 Company) 1996 Series A issued by the Issuer in the aggregate principal amount of  
7 \$200,000,000.

8 MBIA Reimbursement Agreement means that certain Reimbursement and  
9 Indemnity Agreement, dated as of May 1, 2000, by and between the Debtor and MBIA, pursuant  
10 to which MBIA has issued the PC Bond Insurance Policy, together with all amendments,  
11 modifications, and renewals thereof.

12 Medium Term Note Claims means all Claims against the Debtor arising from the  
13 Medium Term Notes.

14 Medium Term Notes means those certain notes bearing various interest rates from  
15 5.810% to 8.450% due through October 7, 2013, other than the Senior Notes and the Floating  
16 Rate Notes, issued by the Debtor under an indenture by and between the Debtor and Wilmington  
17 Trust Company, as successor-in-interest to the Bank of New York, dated September 1, 1987,  
18 together with all amendments, modifications, renewals, substitutions and replacements thereof.

19 Moody's means Moody's Investors Service Inc. or its successor.

20 Mortgage means that certain First and Refunding Mortgage, dated December 1,  
21 1920, made by the Debtor, under which BNY Western Trust Company was trustee on the  
22 Petition Date, together with all amendments, modifications, renewals, substitutions and  
23 replacements thereof.

24 Mortgage Backed PC Bonds means collectively, the 92A Bonds, the 92B Bonds,  
25 the 93A Bonds and the 93B Bonds.

26 Mortgage Backed PC Bond Claims means all Claims against the Debtor by the  
27 Issuer, Bond Trustee and the holders of the Mortgage Backed PC Bonds for all amounts due and  
28 owing by the Debtor under the Loan Agreement and each of the other PC Bond Documents

1 executed by the Debtor in connection with the issuance of each series of Mortgage Backed PC  
2 Bonds.

3 Mortgage Bonds means, with respect to each series of Mortgage Backed PC  
4 Bonds, those certain first and refunding mortgage bonds made by the Debtor in favor of the  
5 Bond Trustee pursuant to and secured by the Mortgage, in an aggregate principal amount equal  
6 to the related series of Mortgage Backed PC Bonds.

7 Mortgage Loan means, with respect to each series of First and Refunding  
8 Mortgage Bonds, the loans made by the holders thereof to the Debtor.

9 New Tax Sharing Agreement means the agreement to be entered into between the  
10 Parent and the Reorganized Debtor for the allocation of income tax liability, substantially in the  
11 form of Exhibit 4 to the Plan.

12 Nominee means any brokerage firm or bank, or the agent of such firm or bank,  
13 holding the securities of a beneficial owner of bonds, notes, debentures or shares of stock of the  
14 Debtor.

15 Original Letter of Credit Fee has the meaning set forth in Section 4.10(b)(iv)  
16 hereof.

17 Other Priority Claims means all Claims against the Debtor, other than  
18 Administrative Expense Claims or Priority Tax Claims, entitled to priority in right of payment  
19 under section 507(a) of the Bankruptcy Code.

20 Other Secured Claims means all Claims against the Debtor relating to mechanics'  
21 and materialmen's liens and secured tax Claims, as well as Secured Claims, other than Secured  
22 Claims Relating to First and Refunding Mortgage Bonds and Mortgage Backed PC Bond Claims.

23 Parent means PG&E Corporation, the Debtor's parent company.

24 PC Bond Documents means, with respect to each series of PC Bonds, the Loan  
25 Agreement, Indenture, and all of the other documents, instruments, agreements and certificates  
26 evidencing, securing, governing or otherwise pertaining to the respective Bond Loan or the  
27 respective series of PC Bonds or otherwise executed and delivered by or on behalf of the Debtor  
28

1 in connection with any of the foregoing, together with all amendments, modifications, renewals,  
2 substitutions and replacements of or to any of the foregoing.

3 PC Bond Insurance Policy means that certain Financial Guaranty Insurance Policy  
4 issued by MBIA with respect to the MBIA Insured PC Bonds, together with all amendments,  
5 modifications, renewals, substitutions and replacements thereof.

6 PC Bonds means collectively, the Letter of Credit Backed PC Bonds, the MBIA  
7 Insured PC Bonds, the Mortgage Backed PC Bonds, the Prior Bonds and the Treasury PC Bonds.

8 Pending Litigation Claims means all Claims against the Debtor that are asserted in  
9 litigation pending against the Debtor and that are listed in an amendment to PG&E's Plan  
10 Supplement; provided, however, that Pending Litigation Claims shall not include (a) any Claims  
11 settled, liquidated or determined by a Final Order or a binding award, agreement or settlement  
12 prior to the Petition Date for amounts payable by the Debtor for damages or other obligations in  
13 a fixed dollar amount payable in a lump sum or by a series of payments (which Claims are  
14 classified as General Unsecured Claims), (b) Environmental Claims, (c) Fire Suppression  
15 Claims, (d) Tort Claims, or (e) FERC License Claims.

16 Person has the meaning set forth in section 101(41) of the Bankruptcy Code.

17 Petition Date means April 6, 2001, the date on which the Debtor commenced the  
18 Chapter 11 Case.

19 PG&E's Plan means that certain Plan of Reorganization under Chapter 11 of the  
20 Bankruptcy Code for Pacific Gas and Electric Company proposed by the Debtor and the Parent,  
21 dated April 19, 2002, including, without limitation, PG&E's Plan Supplement and all exhibits,  
22 supplements, appendices and schedules thereto, either in its present form or as the same may be  
23 altered, amended or modified from time to time.

24 Plan means this plan of reorganization, as amended, modified or supplemented.

25 PG&E's Plan Supplement means the documents, schedules and other instruments  
26 filed with the Bankruptcy Court in accordance with Section 11.19 of PG&E's Plan, as amended,  
27 modified or supplemented.

28 Post-Petition Interest has the meaning set forth in Section 4.1 hereof.

1                   Preferred Stock means the issued and outstanding shares of the Debtor's First  
2 Preferred Stock, par value \$25.00 per share. The Debtor's outstanding First Preferred Stock is  
3 comprised of: (a) 6% Non-Redeemable First Preferred, (b) 5.5% Non-Redeemable First  
4 Preferred, (c) 5% Non-Redeemable First Preferred, (d) 5% Redeemable First Preferred Series D,  
5 (e) 5% Redeemable First Preferred Series E, (f) 4.80% Redeemable First Preferred, (g) 4.50%  
6 Redeemable First Preferred, (h) 4.36% Redeemable First Preferred, (i) 6.57% Redeemable First  
7 Preferred, (j) 7.04% Redeemable First Preferred, and (k) 6.30% Redeemable First Preferred.

8                   Preferred Stock Equity Interests means any right relating to the Debtor's Preferred  
9 Stock.

10                   Prior Bond Claims means all Claims against the Debtor by the Prior Letter of  
11 Credit Issuing Banks for any and all accrued and unpaid amounts due by the Debtor under their  
12 respective Prior Reimbursement Agreements, including amounts due as reimbursement of  
13 amounts paid by each Prior Letter of Credit Issuing Bank under its respective Prior Letter of  
14 Credit to the Bond Trustee for the payment of the redemption price of the related series of Prior  
15 Bonds.

16                   Prior Bonds means, collectively, the 96B Bonds, the 96D Bonds, the 97A Bonds  
17 and the 97C Bonds, together with any series of 96C Bonds, 96E Bonds, 96F Bonds and/or 97B  
18 Bonds that have been redeemed in whole, but not in part, as of the Voting Record Date or the  
19 Effective Date, as applicable.

20                   Prior Letter of Credit means, with respect to each series of Prior Bonds, that  
21 certain irrevocable direct pay letter of credit issued by the Prior Letter of Credit Issuing Bank for  
22 the account of the Debtor to the Bond Trustee and delivered to the Bond Trustee in accordance  
23 with the terms of the respective Indenture which secured, among other things, the payment of the  
24 principal of, and interest on, the respective series of Prior Bonds, together with all amendments,  
25 modifications, renewals, substitutions and replacements thereof.

26                   Prior Letter of Credit Issuing Bank means, with respect to each series of Prior  
27 Bonds, the issuer of the Prior Letter of Credit.

1                   Prior Reimbursement Agreement means, with respect to each series of Prior  
2 Bonds, that certain reimbursement or other agreement between the Debtor and the Prior Letter of  
3 Credit Issuing Bank providing for, among other things, the issuance of the related Prior Letter of  
4 Credit and the reimbursement of the Prior Letter of Credit Issuing Bank for draws made  
5 thereunder, together with all amendments, modifications, renewals, substitutions and  
6 replacements thereof.

7                   Priority Tax Claim means all Claims against the Debtor for taxes entitled to  
8 priority in payment under section 507(a)(8) of the Bankruptcy Code.

9                   Procedures Order means the Order of the Bankruptcy Court approving, among  
10 other things, voting solicitation procedures, the form of voting ballots, the solicitation period and  
11 the voting tabulation procedures regarding this Plan and PG&E's Plan.

12                   Professional Compensation and Reimbursement Claims means all Administrative  
13 Expense Claims for the compensation of professionals and reimbursement of expenses incurred  
14 by such professionals, the Commission, the Committee and members of the Committee pursuant  
15 to sections 330(a) or 503(b)(2), 503(b)(3), 503(b)(4) and 503(b)(5) of the Bankruptcy Code.

16                   Proponent means the Commission.

17                   Punitive Damages means punitive, exemplary or similar damages, or fines,  
18 penalties or similar charges that arise in connection with Environmental Claims, Fire  
19 Suppression Claims, Pending Litigation Claims, Tort Claims or FERC License Claims.

20                   PX means the California Power Exchange.

21                   QFs means qualifying facilities operating pursuant to the Public Utility  
22 Regulatory Policies Act of 1978 and the related regulations enacted thereunder.

23                   QUIDS means the 7.90% Deferrable Interest Subordinated Debentures, Series A,  
24 Due December 31, 2025 issued by the Debtor under the QUIDS Indenture, together with all  
25 amendments, modifications, renewals, substitutions and replacements thereof.

26                   QUIDS Claims means all Claims arising from the QUIDS.

27                   QUIDS Indenture means the Indenture by and between the Debtor and National  
28 City Bank of Indiana, as successor-in-interest to Bank One Trust Company, N.A., as successor-

1 in-interest to The First National Bank of Chicago, dated November 28, 1995, as supplemented by  
2 the First Supplemental Indenture dated November 28, 1995, as supplemented by the Second  
3 Supplemental Indenture dated March 25, 1996.

4 Rate Recovery Litigation means Pacific Gas and Electric Co. v. Loretta Lynch,  
5 et al., Case No. C-00-4128-SBA in the United States District Court for the Northern District of  
6 California.

7 Reimbursement Agreement means, with respect to each series of Letter of Credit  
8 Backed PC Bonds, that certain reimbursement or other agreement between the Debtor and the  
9 Letter of Credit Issuing Bank and certain other Banks, if any, that are signatories thereto  
10 providing for, among other things, the issuance of the related Letter of Credit and the  
11 reimbursement of the Letter of Credit Issuing Bank and certain other Banks, if any, that are  
12 signatories thereto for draws made under such Letter of Credit, together with all amendments,  
13 modifications, renewals, substitutions and replacements thereof.

14 Reimbursement Obligation means, with respect to each series of Prior Bonds, that  
15 portion of the reimbursement obligation of the Debtor under the Prior Reimbursement  
16 Agreement arising with respect to the portion of the final drawing made under the related Prior  
17 Letter of Credit for the payment of the principal portion of the redemption price of the related  
18 series of Prior Bonds.

19 Releasees means all Persons who (i) are present or former officers and directors  
20 of the Debtor who were directors and/or officers on or after the Petition Date; (ii) serve or served  
21 as members of management of the Debtor on or after the Petition Date; (iii) are present or former  
22 members of the Committee; (iv) are present or former officers and directors and other Persons  
23 who serve or served as members of the management of any present or former member of the  
24 Committee; or (v) are advisors, consultants or professionals of or to the Debtor, the Committee  
25 and the members of the Committee, but in each case only to the extent such Persons are or were  
26 acting in any of the capacities set forth in (i) through (v) above.

27 Reorganized Debtor means the Debtor, or any successor thereto by merger,  
28 consolidation or otherwise, on and after the Effective Date.



1                   Reorganized Debtor New Money Notes has the meaning set forth in Section  
2 7.1(a) hereof.

3                   Retirement Plan means the Pacific Gas and Electric Company Retirement Plan, a  
4 tax qualified defined benefit pension plan covered by Title IV of ERISA, as amended, 29 U.S.C.  
5 §§ 1301 et seq. (1994 & Supp. v 2000).

6                   Revolving Line of Credit means the Amended and Restated Credit Agreement,  
7 dated as of December 1, 1997, as amended, as to which Bank of America, N.A. was the  
8 Administrative Agent on the Petition Date, together with all amendments, modifications,  
9 renewals, substitutions and replacements thereof.

10                  Revolving Line of Credit Claim means all Claims against the Debtor arising from  
11 the Revolving Line of Credit.

12                  Secured Claim means all Claims against the Debtor, to the extent reflected in the  
13 Debtor's Bankruptcy Schedules or a proof of claim as a Secured Claim, which are secured by a  
14 Lien on Collateral but only to the extent of the value of such Collateral, as determined in  
15 accordance with section 506(a) of the Bankruptcy Code, and, in the event that such Claim is  
16 subject to a permissible setoff under section 553 of the Bankruptcy Code, to the extent of such  
17 permissible setoff.

18                  Secured Claims Relating to First and Refunding Mortgage Bonds means all  
19 Claims against the Debtor arising from the First and Refunding Mortgage Bonds.

20                  Senior Indebtedness means, collectively, Commercial Paper Claims, Floating  
21 Rate Note Claims, Medium Term Note Claims, Senior Note Claims and Revolving Line of  
22 Credit Claims.

23                  Senior Note Claims means all Claims against the Debtor arising from the Senior  
24 Notes.

25                  Senior Notes means the 7.375% Senior Notes due November 1, 2005, issued by  
26 the Debtor under an indenture by and between the Debtor and Wilmington Trust Company, as  
27 successor-in-interest to The Bank of New York, dated September 1, 1987, together with all  
28 amendments, modifications, renewals, substitutions and replacements thereof.

1                   Settlement and Support Agreement means that certain Amended and Restated  
2 Settlement and Support Agreement dated as of March 27, 2002, by and among the Debtor, the  
3 Parent and certain holders of Senior Indebtedness who are parties thereto.

4                   Settlement Order means the Order of the Bankruptcy Court dated March 27, 2002,  
5 entitled “Order on Motion by Pacific Gas and Electric Company for Order (A) Approving  
6 Settlement and Support Agreement By and Among Plan Proponents and Senior Debtholders, (B)  
7 Authorizing Payment of Pre-and Post-Petition Interest to Holders of Undisputed Claims in  
8 Certain Classes, (C) Authorizing Payment of Fees and Expenses of Indenture Trustees and  
9 Paying Agents and (D) Authorizing Debtor to Enter into Similar Agreements.”

10                   Southern San Joaquin Valley Power Authority Agreement means the Agreement  
11 between the Debtor and the Southern San Joaquin Valley Power Authority dated as of July 1,  
12 1997, and related Indenture of Trust dated as of November 1, 1991, between the Southern San  
13 Joaquin Valley Power Authority and Bank of America N.A., as Trustee in respect of amounts  
14 payable on certain bonds issued by Southern San Joaquin Power Authority maturing in 2001  
15 through January 1, 2013, together with all amendments, modifications, renewals, substitutions  
16 and replacements thereof.

17                   Southern San Joaquin Valley Power Authority Bond Claims means all Claims  
18 against the Debtor arising from the Southern San Joaquin Valley Power Authority Agreement.

19                   S&P means Standard & Poor’s, a division of The McGraw Hill Companies, Inc.,  
20 or its successor.

21                   State or State of California means the State of California and all of its entities  
22 departments, boards, offices, commissions, agencies, bureaus, divisions, instrumentalities,  
23 officers, commissioners and employees.

24                   Stated Amount means, with respect to each Letter of Credit, the aggregate amount  
25 available to be drawn thereunder, from time to time, in accordance with the terms thereof.

26                   Tax Code means the United States Internal Revenue Code of 1986, as amended,  
27 and the Treasury Regulations thereunder.

28

1                    Tort Claims means (i) the Chromium Litigation Claims and all other Claims  
2 against the Debtor arising from any accusation, allegation, notice, action, claim, demand or  
3 otherwise for personal injury, tangible or intangible property damage, products liability or  
4 discrimination, or based on employment, including Punitive Damages; and (ii) any claim for  
5 indemnification or contribution (whether based on contract, statute or common law) against the  
6 Debtor by any third-party, where such indemnification or contribution claim of such third-party  
7 is based on a claim against such third-party that if asserted directly against the Debtor would be a  
8 claim included within the immediately preceding clause (i); provided, however, that Tort Claims  
9 shall not include (a) any Claims settled, liquidated or determined by a Final Order or a binding  
10 award, agreement or settlement prior to the Petition Date for amounts payable by the Debtor for  
11 damages or other obligations in a fixed dollar amount payable in a lump sum or by a series of  
12 payments (which Claims are classified as General Unsecured Claims), (b) Environmental  
13 Claims, (c) Fire Suppression Claims, (d) FERC License Claims, or (e) Pending Litigation  
14 Claims.

15                    Treasury PC Bond Claims means the Claims against the Debtor by the Issuer,  
16 Bond Trustee and holders of Treasury PC Bonds for all amounts due and owing by the Debtor  
17 under the Loan Agreements and each of the other PC Bond Documents executed by the Debtor  
18 in connection with the issuance of each series of Treasury PC Bonds.

19                    Treasury PC Bonds means, collectively, the 96G Bonds and the 97D Bonds.

20                    Unimpaired means any Class of Claims or Equity Interests which is not Impaired.

21                    Voting Record Date means May 21, 2002.

22                    Workers' Compensation Claims means all Claims against the Debtor by  
23 employees of the Debtor for the payment of workers' compensation benefits under applicable  
24 law.

25                    Workers' Compensation Indemnity Agreements means (a) the Indemnity  
26 Agreement by PG&E Corporation, dated April 7, 2000, to indemnify American Home  
27 Assurances Company in connection with issuance of Surety Bond No. 00-207-724 issued on  
28 behalf of the Debtor for Workers' Compensation, (b) the Indemnity Agreement by PG&E

1 Corporation, dated April 7, 2000, to indemnify CAN Insurance Companies in connection with  
2 issuance of Surety Bond No. 159267371 issued on behalf of the Debtor for Workers'  
3 Compensation, (c) the Indemnity Agreement by PG&E Corporation, dated April 7, 2000, to  
4 indemnify Kemper Insurance Companies in connection with issuance of Surety Bond No.  
5 955006 issued on behalf of the Debtor for Workers' Compensation, (d) the Indemnity Agreement  
6 by PG&E Corporation, dated April 7, 2000, to indemnify Travelers Insurance, as successor to  
7 Reliance Insurance Company, in connection with issuance of Surety Bond No. B1686191 issued  
8 on behalf of the Debtor for Workers' Compensation, and (e) the Indemnity Agreement by PG&E  
9 Corporation, dated April 7, 2000, to indemnify Firemen's Fund Insurance Company in  
10 connection with issuance of Surety Bond No. 11133362811 issued on behalf of the Debtor for  
11 Workers' Compensation.

12 1.2 Interpretation; Application of Definitions and Rules of Construction.

13 Wherever from the context it appears appropriate, each term stated in either the singular or the  
14 plural shall include both the singular and the plural, and pronouns stated in the masculine,  
15 feminine or neuter gender shall include the masculine, feminine and neuter. Unless otherwise  
16 specified, all section, article, schedule or exhibit references in the Plan are to the respective  
17 Section in, Article of, Schedule to, or Exhibit to, the Plan. The words "herein," "hereof,"  
18 "hereto," "hereunder" and other words of similar import refer to the Plan as a whole and not to  
19 any particular section, subsection or clause contained in the Plan. The rules of construction  
20 contained in section 102 of the Bankruptcy Code shall apply to the construction of the Plan. A  
21 term used herein that is not defined herein, but that is used in the Bankruptcy Code, shall have  
22 the meaning ascribed to that term in the Bankruptcy Code. The headings in the Plan are for  
23 convenience of reference only and shall not limit or otherwise affect the provisions of the Plan.

24 **ARTICLE II**

25 **TREATMENT OF ADMINISTRATIVE EXPENSE CLAIMS,**  
26 **PROFESSIONAL COMPENSATION AND REIMBURSEMENT**  
27 **CLAIMS, AND PRIORITY TAX CLAIMS**

28 2.1 Administrative Expense Claims. Except to the extent that any entity  
entitled to payment of any Allowed Administrative Expense Claim agrees to a less favorable

1 treatment, each holder of an Allowed Administrative Expense Claim shall receive Cash in an  
2 amount equal to such Allowed Administrative Expense Claim on the later of the Effective Date  
3 and the date such Administrative Expense Claim becomes an Allowed Administrative Expense  
4 Claim, or as soon thereafter as is practicable, or on such other date as may be ordered by the  
5 Bankruptcy Court; provided, however, that Allowed Administrative Expense Claims  
6 representing liabilities incurred in the ordinary course of business by the Debtor-in-Possession  
7 (including, but not limited to, real and personal property taxes and franchise fees) or liabilities  
8 arising under loans or advances to or other obligations incurred by the Debtor-in-Possession shall  
9 be paid in full and performed by the Debtor in the ordinary course of business in accordance with  
10 the terms and subject to the conditions of any agreements governing, instruments evidencing or  
11 other documents relating to such transactions. Except as provided under applicable non-  
12 bankruptcy law, Post-Petition Interest will not be paid on Allowed Administrative Expense  
13 Claims.

14                   2.2     Professional Compensation and Reimbursement Claims. The holders of  
15 Professional Compensation and Reimbursement Claims shall file their respective final  
16 applications for allowances of compensation for services rendered and reimbursement of  
17 expenses incurred through the Confirmation Date by no later than the date that is ninety (90)  
18 days after the Confirmation Date, or such other date as may be fixed by the Bankruptcy Court. If  
19 granted by the Bankruptcy Court, such award shall be paid in full in such amounts as are  
20 Allowed by the Bankruptcy Court either (a) on the date such Professional Compensation and  
21 Reimbursement Claim becomes an Allowed Professional Compensation and Reimbursement  
22 Claim, or as soon thereafter as is practicable, or (b) upon such other terms as may be mutually  
23 agreed upon between such holder of an Allowed Professional Compensation and Reimbursement  
24 Claim and the Debtor. Except as provided under applicable non-bankruptcy law, Post-Petition  
25 Interest will not be paid on Professional Compensation and Reimbursement Claims.

26                   2.3     Priority Tax Claims. Except to the extent that a holder of an Allowed  
27 Priority Tax Claim has been paid by the Debtor prior to the Effective Date or agrees to a  
28 different treatment, each holder of an Allowed Priority Tax Claim shall receive, in full and

1 complete settlement, satisfaction and discharge of its Allowed Priority Tax Claim, including  
2 Post-Petition Interest, Cash in an amount equal to such Allowed Priority Tax Claim on the later  
3 of the Effective Date and the date such Priority Tax Claim becomes an Allowed Priority Tax  
4 Claim, or as soon as practicable thereafter.

### 5 **ARTICLE III**

#### 6 **CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS**

7 Claims against and Equity Interests in the Debtor, other than Administrative  
8 Expense Claims, Professional Compensation and Reimbursement Claims and Priority Tax  
9 Claims, are classified for all purposes, including voting, confirmation and distribution pursuant  
10 to the Plan, as follows:

11 <b><u>Class</u></b>	<b><u>Claim/Interest</u></b>	<b><u>Status</u></b>
12 1	Other Priority Claims	Unimpaired
13 2	Other Secured Claims	Unimpaired
14 3	Secured Claims Relating to First and Refunding 15 Mortgage Bonds	Unimpaired
16 4a	Mortgage Backed PC Bond Claims	Unimpaired
17 4b	MBIA Insured PC Bond Claims	Unimpaired
18 4c	MBIA Claims	Impaired
19 4d	Letter of Credit Backed PC Bond Claims	Unimpaired
20 4e	Letter of Credit Bank Claims	Impaired
21 4f	Prior Bond Claims	Unimpaired
22 4g	Treasury PC Bond Claims	Unimpaired
23 5	General Unsecured Claims	Impaired
24 6	ISO, PX and Generator Claims	Impaired
25 7	ESP Claims	Impaired
26 8	Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims	Unimpaired
27 9	[Intentionally Left Blank]	[Intentionally Left Blank]
28 10	Convenience Claims	Unimpaired

<u>Class</u>	<u>Claim/Interest</u>	<u>Status</u>
11	QUIDS Claims	Impaired
12	Workers' Compensation Claims	Unimpaired
13	Preferred Stock Equity Interests	Unimpaired <sup>2</sup>
14	Common Stock Equity Interests	Impaired

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

---

<sup>2</sup> While the Commission believes that Class 13 is unimpaired by the Plan, certain holders of Preferred Stock Equity Interests may believe that Class 13 is impaired by the Plan. To avoid delaying the voting process, holders of Preferred Stock Equity Interests will be solicited to vote on the Plan as a precautionary measure so that the voting results will be available if it is determined by the Bankruptcy Court that such Class is impaired. Allowing the holders of Preferred Stock Equity Interests to vote shall be without prejudice to the Commission's contention that this Class is unimpaired, and the Commission reserves the right to contest any objection to the unimpaired status of this Class.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**ARTICLE IV**

**TREATMENT OF CLAIMS AND EQUITY INTERESTS<sup>3</sup>**

4.1 Payment of Interest. Allowed Claims shall include amounts owed with respect to the period prior to the Petition Date and applicable interest accrued and unpaid during such period. Except as otherwise provided herein, holders of Allowed Claims shall also be paid in Cash accrued and unpaid interest on such Allowed Claims from the Petition Date through the Effective Date (“Post-Petition Interest”). Except as otherwise provided herein, including Exhibit 1 attached hereto, any Post-Petition Interest shall be calculated and paid at the lowest non-default rate and in accordance with the terms specified in the applicable statute, indenture or instrument governing such Allowed Claim or, if no such instrument exists, or if the applicable instrument does not specify a non-default rate of interest, Post-Petition Interest shall be calculated and paid on such Allowed Claim at the Federal Judgment Rate. Except as provided by otherwise

---

<sup>3</sup> During the Chapter 11 Case, the Debtor has entered into a number of settlements with various creditors regarding the allowance and treatment of such creditors’ Claims under PG&E’s Plan. With the exception of those settlement provisions that are unique to the allowance and treatment of such creditors’ Claims under PG&E’s Plan and are not relevant here, the provisions governing allowance and treatment of creditor Claims set forth in the creditor settlements are (i) incorporated into and made part of the Plan, and (ii) to be assumed and performed by the Debtor or Reorganized Debtor, as the case may be, under the Plan. By way of example, the Plan incorporates the principal terms of the following such settlements: the Committee Support Agreement, the Settlement and Support Agreement, the agreements between the Debtor and various of the drawn and undrawn Letter of Credit Banks, the agreements between the Debtor and certain QFs, the agreements between the Debtor and various representatives of mortgage, pollution control and other bonds issued by the Debtor or insurance relating to such bonds, the agreements between the Debtor and various generators, the PX and ISO, the Settlement and Stanislaus Commitments stipulation by and between the Debtor, the NCPA and the City of Palo Alto, and any other such similar agreements, whether or not the terms of such settlements are specifically referenced in the Commission’s Plan. In particular, there is incorporated into and made part of the Commission’s Plan and will be assumed and performed by the Debtor or the Reorganized Debtor, as the case may be, under the Commission’s Plan, the provisions of the Settlement and Support Agreement, with the exception of the “placement fee” provision, “step-up” interest rate provision in section 2(a)(ii) thereof, the provisions relating to the payment of Class 5 Claims in notes and the provisions requiring support for the PG&E Plan. Specifically, and subject to the foregoing, the Commission’s Plan incorporates and makes part of its Plan the provisions in the Settlement and Support Agreement contained in paragraphs 1, 2(a)(i), 3, 4, 5(a), (c), 12, 13, 14 (only as it relates to the Commission’s Plan and its implementation), 15, 24 and 26 thereof.



1 applicable non-bankruptcy law, Post-Petition Interest will not be paid on the following Allowed  
2 Claims: Administrative Expense Claims, Professional Compensation and Reimbursement  
3 Claims, Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims  
4 and Workers' Compensation Claims.

5 4.2 Timing of Payments and Distributions.

6 (a) Pursuant to an Order entered by the Bankruptcy Court on April 9,  
7 2001 authorizing the Debtor's interim use of cash collateral, the Debtor has paid and will  
8 continue to pay Post-Petition Interest to holders of Allowed Claims in Classes 3 and 4a. In  
9 addition, the Debtor will make payments of Post-Petition Interest that has accrued and is unpaid  
10 on and after the Initial Calculation Date through the last day of the last calendar quarter ending  
11 prior to the Effective Date, in arrears, in quarterly installments (or in the case of the first quarter  
12 following the Initial Calculation Date, for holders of Allowed Claims for which February 28,  
13 2002 is the Initial Calculation Date, the four-month period from March 1, 2002 to June 30, 2002)  
14 as follows: (x) on the first Business Day of the next calendar quarter to the holders of Allowed  
15 Claims in Class 5 for Senior Indebtedness, the holders of Allowed Southern San Joaquin Power  
16 Authority Bond Claims and the holders of Allowed Claims in Classes 4c, 4f, 4g and 11, and (y)  
17 within thirty (30) days following the end of the calendar quarter, to the remaining holders of  
18 Allowed Class 5 Claims and the holders of Allowed Claims in Classes 1, 2, 6, 7 and 10. Any  
19 Post-Petition Interest that accrues during the period commencing on the first day of the calendar  
20 quarter in which the Effective Date occurs and ending on the Effective Date will be paid on the  
21 Effective Date.

22 (b) Pursuant to an Order entered by the Bankruptcy Court on April 9,  
23 2002 approving the Debtor's execution and performance under an agreement with the Letter of  
24 Credit Issuing Banks entitled "Summary of Terms with Respect to Forbearance and Proposed  
25 Revised Treatment of Letter of Credit Bank Claims in the Plan of Reorganization" (the "LC  
26 Bank Agreement"), the Debtor will (i) within ten (10) days after the approval of the LC Bank  
27 Agreement and thereafter, make payments to (A) the Letter of Credit Issuing Banks of certain  
28 reasonable fees and expenses of professionals retained by the Letter of Credit Issuing Banks, and

1 (B) the holders of Allowed Claims in Class 4e of the Forbearance, Extension and Letter of Credit  
2 Fees, and (ii) within ten (10) days after the Confirmation Date and thereafter, pay to the holders  
3 of Allowed Claims in Class 4e the outstanding reimbursement claims under the applicable  
4 Reimbursement Agreements with respect to Letter of Credit draws for the payment of interest on  
5 the related series of Letter of Credit Backed PC Bonds, together with accrued and unpaid interest  
6 due thereon at the non-default rate to the extent provided in the applicable Reimbursement  
7 Agreements.

8 (c) Pursuant to the Settlement Order and Settlement and Support  
9 Agreement, the accrual and payment of Post-Petition Interest shall terminate if (i) the Debtor is  
10 determined by a Final Order of the Bankruptcy Court to be insolvent (on a balance sheet basis)  
11 with such interest accrual termination effective as of the date of insolvency, as determined by the  
12 Bankruptcy Court, (ii) upon conversion of the Chapter 11 Case to a case under chapter 7,  
13 provided that there is not a subsequent determination of the Bankruptcy Court that there are  
14 assets of sufficient value to pay Post-Petition Interest on the applicable Allowed Claim. In  
15 circumstances where the accrual and payment of Post-Petition Interest terminates, any payments  
16 of Post-Petition Interest may be recharacterized and treated as a partial payment of the principal  
17 amount of the applicable Allowed Claims.

18 (d) Except as set forth in Sections 4.2(a) and 4.2(b) above and except  
19 to the extent a holder of an Allowed Claim or Equity Interest has otherwise been paid all or a  
20 portion of such holder's Allowed Claim or Equity Interest prior to the Effective Date, each of the  
21 distributions specified in this Article IV with respect to each Allowed Claim or Equity Interest  
22 shall (i) occur on the later of the Effective Date and the date such Allowed Claim or Equity  
23 Interest becomes an Allowed Claim or Equity Interest, or as soon as practicable thereafter, and  
24 (ii) be in full and complete settlement, satisfaction and discharge of such Allowed Claim or  
25 Equity Interest.

26 4.3 Class 1 - Other Priority Claims.

27 (a) Distributions. Each holder of an Allowed Other Priority Claim, if  
28 any, shall be paid Cash in an amount equal to such Allowed Claim.

1 (b) Impairment and Voting. Class 1 is unimpaired by the Plan. Each  
2 holder of an Allowed Other Priority Claim is conclusively presumed to have accepted the Plan  
3 and is not entitled to vote to accept or reject the Plan.

4 4.4 Class 2 - Other Secured Claims.

5 (a) Distributions/Reinstatement of Claims. The Claims of each holder  
6 of an Allowed Other Secured Claim shall, at the option of the Debtor, (i) be reinstated and  
7 rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code or (ii) be paid  
8 Cash in an amount equal to such Allowed Other Secured Claim, including any interest on such  
9 Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy  
10 Code.

11 (b) Impairment and Voting. Class 2 is unimpaired by the Plan. Each  
12 holder of an Allowed Other Secured Claim is conclusively presumed to have accepted the Plan  
13 and is not entitled to vote to accept or reject the Plan.

14 4.5 Class 3 - Secured Claims Relating to First and Refunding Mortgage  
15 Bonds.

16 (a) Allowance. The Secured Claims Relating to First and Refunding  
17 Mortgage Bonds shall be deemed Allowed Secured Claims Relating to First and Refunding  
18 Mortgage Bonds in the amount of \$2,699,000,000<sup>4</sup>, plus accrued and unpaid pre-petition interest  
19 on such amount, plus Allowed Claims in the amount of all unpaid fees and expenses of the  
20 related mortgage bond trustee accrued through the Petition Date under the terms of the  
21 Mortgage.

22 (b) Reinstatement of Claims. The First and Refunding Mortgage  
23 Bonds and each of the First and Refunding Mortgage Bond Documents shall remain outstanding  
24 and be reinstated in accordance with section 1124(2) of the Bankruptcy Code. Each holder of an  
25 Allowed Secured Claim Relating to First and Refunding Mortgage Bonds shall be paid Cash in  
26 an amount equal to any and all accrued and unpaid interest owed to such holder in respect of

27 <sup>4</sup> This amount is net of the approximately \$277 million of First and Refunding Mortgage  
28 Bonds held by the Debtor in treasury.

1 such First and Refunding Mortgage Bond in accordance with the terms of the respective First  
2 and Refunding Mortgage Bond, to and including the last scheduled interest payment date  
3 preceding the Effective Date. All unpaid fees and expenses of BNY Western Trust Company  
4 due and owing under the applicable series of First and Refunding Mortgage Bonds shall also be  
5 paid in Cash.

6 (c) Impairment and Voting. Class 3 is unimpaired by the Plan. Each  
7 holder of an Allowed Secured Claim Relating to First and Refunding Mortgage Bonds is  
8 conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the  
9 Plan.

10 4.6 Class 4a - Mortgage Backed PC Bond Claims.

11 (a) Allowance. The Mortgage Backed PC Bond Claims shall be  
12 deemed Allowed Secured Claims in the amount of \$345,000,000, plus accrued and unpaid pre-  
13 petition interest on such amount, plus Allowed Claims in the amount of all unpaid fees and  
14 expenses of the Mortgage Bond trustee accrued through the Petition Date under the terms of the  
15 Mortgage.

16 (b) Reinstatement of Claims. Each series of Mortgage Backed PC  
17 Bonds, and each of the PC Bond Documents, shall remain outstanding and be reinstated in  
18 accordance with section 1124(2) of the Bankruptcy Code. Each holder of a Mortgage Backed  
19 PC Bond shall be paid Cash in an amount equal to any and all accrued and unpaid interest owed  
20 to such holder in respect of such Mortgage Backed PC Bond in accordance with the terms  
21 thereunder to and including the last scheduled interest payment date preceding the Effective  
22 Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the  
23 applicable Loan Agreements shall also be paid in Cash.

24 (c) Impairment and Voting. Class 4a is unimpaired by the Plan. Each  
25 holder of an Allowed Mortgage Backed PC Bond Claim is conclusively presumed to have  
26 accepted the Plan and is not entitled to vote to accept or reject the Plan.

1                   4.7     Class 4b - MBIA Insured PC Bond Claims.

2                   (a)     Allowance. The MBIA Insured PC Bond Claims shall be deemed  
3 Allowed MBIA Insured PC Bond Claims in the amount of \$200,000,000, plus accrued and  
4 unpaid pre-petition interest on such amount, plus Allowed Claims in the amount of all unpaid  
5 fees and expenses of the related Issuer and Bond Trustee accrued through the Petition Date under  
6 the terms of the applicable PC Bond Documents.

7                   (b)     Reinstatement of Claims. The MBIA Insured PC Bonds, and each  
8 of the PC Bond Documents, shall remain outstanding and be reinstated in accordance with  
9 section 1124(2) of the Bankruptcy Code. Each holder of a MBIA Insured PC Bond shall be paid  
10 Cash in an amount equal to any and all accrued and unpaid interest owed to such holder in  
11 respect of such MBIA Insured PC Bond in accordance with the terms of the respective MBIA  
12 Insured PC Bond, to and including the last scheduled interest payment date preceding the  
13 Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing  
14 under the applicable Loan Agreement shall also be paid in Cash.

15                  (c)     Impairment and Voting. Class 4b is unimpaired by the Plan. Each  
16 holder of an Allowed MBIA Insured PC Bond Claim is conclusively presumed to have accepted  
17 the Plan and is not entitled to vote to accept or reject the Plan.

18                   4.8     Class 4c - MBIA Claims.

19                  (a)     Allowance. The Claims of MBIA with respect to payments which  
20 may become due by the Debtor under the terms of the MBIA Reimbursement Agreement as  
21 reimbursement for payments made by MBIA under the PC Bond Insurance Policy shall be  
22 deemed contingent Claims, and the Claims of MBIA for any and all other accrued and unpaid  
23 amounts due by the Debtor under the MBIA Reimbursement Agreement, including any and all  
24 amounts due by the Debtor as reimbursement of amounts paid by MBIA under the PC Bond  
25 Insurance Policy to the Bond Trustee for the payment of interest on the MBIA Insured PC  
26 Bonds, shall be deemed Allowed MBIA Claims.

27                  (b)     Distributions. Each holder of an Allowed MBIA Claim shall be  
28 paid Cash equal to its pro rata share of the aggregate amount paid by MBIA to the Bond Trustee

1 with respect to the payment of interest on the MBIA Insured PC Bonds during the period from  
2 the Petition Date to and including the last scheduled interest payment date preceding the  
3 Effective Date, together with its pro rata share of all other amounts due and owing to MBIA  
4 under the terms of the MBIA Reimbursement Agreement through the Effective Date, including  
5 any accrued and unpaid interest due on such amounts to the extent provided in the MBIA  
6 Reimbursement Agreement at the non-default rate.

7 (c) Impairment and Voting. Class 4c is impaired by the Plan. Each  
8 holder of an Allowed MBIA Claim is entitled to vote to accept or reject the Plan.

9 4.9 Class 4d - Letter of Credit Backed PC Bond Claims.

10 (a) Allowance. The Letter of Credit Backed PC Bond Claims shall be  
11 deemed Allowed Letter of Credit Backed PC Bond Claims in the amount of \$613,550,000, plus  
12 accrued and unpaid pre-petition interest on such amount, plus Allowed Claims in the amount of  
13 all unpaid fees and expenses of the related Issuer and Bond Trustee accrued through the Petition  
14 Date under the terms of the applicable PC Bond Documents.

15 (b) Reinstatement of Claims. Each series of Letter of Credit Backed  
16 PC Bonds, and each of the PC Bond Documents, shall remain outstanding and be reinstated in  
17 accordance with section 1124(2) of the Bankruptcy Code. Each holder of a Letter of Credit  
18 Backed PC Bond will be paid Cash in an amount equal to any and all accrued and unpaid interest  
19 owed to such holder in respect of such Letter of Credit Backed PC Bond in accordance with the  
20 terms thereof to and including the last scheduled interest payment date preceding the Effective  
21 Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the  
22 applicable Loan Agreement shall also be paid in Cash.

23 (c) Impairment and Voting. Class 4d is unimpaired by the Plan. Each  
24 holder of an Allowed Letter of Credit Backed PC Bond Claim is conclusively presumed to have  
25 accepted the Plan and is not entitled to vote to accept or reject the Plan.

26 4.10 Class 4e - Letter of Credit Bank Claims.

27 (a) Allowance. The Letter of Credit Bank Claims consist of: (i)  
28 Allowed Letter of Credit Bank Claims in the amount of any and all accrued and unpaid amounts

1 due by the Debtor under each of the Reimbursement Agreements (as modified by the LC Bank  
2 Agreement), including, without limitation, any and all amounts due by the Debtor as  
3 reimbursement of amounts paid by a Letter of Credit Issuing Bank under its Letter of Credit to  
4 the Bond Trustee for the payment of interest on the related Letter of Credit Backed PC Bonds  
5 and any and all interest and fees due thereunder and (ii) with respect to payments which may  
6 become due by the Debtor under the terms of each of the Reimbursement Agreements (as  
7 modified by the LC Bank Agreement), including, without limitation, as reimbursement for  
8 amounts drawn under the Letters of Credit as well as for interest and fees due thereunder,  
9 contingent Claims in an amount equal to any and all such outstanding amounts.

10 (b) Distributions.

11 (i) Commencing within ten (10) days after the Confirmation  
12 Date, to the extent that the Debtor has not reimbursed the applicable Letter of Credit Issuing  
13 Bank and the applicable Banks, if any, for drawings made on the related Letter of Credit with  
14 respect to the payment of interest on the related series of Letter of Credit Backed PC Bonds to  
15 the extent provided in the respective Reimbursement Agreement, each holder of an Allowed  
16 Letter of Credit Bank Claim will be paid Cash in an amount equal to its pro rata share of the  
17 aggregate amount paid by the respective Letter of Credit Issuing Bank to the respective Bond  
18 Trustee under the terms of the applicable Letter of Credit with respect to the payment of the  
19 interest on the Letter of Credit Backed PC Bonds to which such Letter of Credit Bank Claim  
20 relates during the period from the Petition Date to and including the last scheduled interest  
21 payment date on such Letter of Credit Backed PC Bonds preceding the Effective Date. Each  
22 holder of an Allowed Letter of Credit Bank Claim will also be paid Cash in an amount equal to  
23 its pro rata share of all other amounts then due and owing to the respective Letter of Credit  
24 Issuing Bank and the applicable Banks, if any, under the terms of the respective Reimbursement  
25 Agreement (other than for reimbursement of drawings on the respective Letter of Credit) through  
26 the Effective Date, including, without limitation, interest at the interest rate due on such amounts  
27 to the extent provided in the respective Reimbursement Agreements, and any due and owing  
28 Forbearance, Extension and Letter of Credit Fees (as hereinafter defined) through the Effective

1 Date, and the reasonable fees and expenses of unrelated third-party professionals retained by the  
2 Letter of Credit Issuing Banks, to the extent incurred subsequent to the Petition Date in the  
3 Chapter 11 Case, which with respect to each Letter of Credit Issuing Bank for the period prior to  
4 December 1, 2001, to the extent payment of such fees and expenses are approved by the  
5 Bankruptcy Court prior to the Confirmation Date and such payment is made prior to the  
6 Confirmation Date, shall be in an aggregate amount equal to the amount mutually agreed to by  
7 the Debtor and each Letter of Credit Issuing Bank. Additionally, on the Confirmation Date,  
8 pursuant to the terms of the LC Bank Agreement, the Debtor has agreed, among other things and  
9 subject to certain conditions, to pay to Deutsche Bank AG New York Branch an agency fee in  
10 the amount of \$250,000. The interest rate on each Letter of Credit Bank Claim, interest payment  
11 start date and interest payment intervals are set forth on Exhibit 1 hereto.

12 (ii) On the Effective Date one of the following shall occur with  
13 respect to each series of Letter of Credit Backed PC Bonds and its respective Letter of Credit, at  
14 the option of the Debtor separately for each series of Letter of Credit Backed PC Bonds:

15 (A) Purchase Option. The respective series of Letter of  
16 Credit Backed PC Bonds shall be called for mandatory tender in accordance with the terms of the  
17 respective Indenture and shall be purchased by the respective Bond Trustee through a draw on  
18 the related Letter of Credit and, at the option of the respective Letter of Credit Issuing Bank,  
19 shall either be registered in the name of the respective Letter of Credit Issuing Bank or in the  
20 name of the Debtor subject to a first lien security interest in favor of the respective Letter of  
21 Credit Issuing Bank to additionally secure the obligations of the Debtor under the related  
22 Reimbursement Agreement. On the Effective Date, to the extent that the Debtor has not  
23 reimbursed the applicable Letter of Credit Issuing Bank and the applicable Banks, if any, for  
24 drawings made on the related Letter of Credit with respect to the payment of interest on the  
25 related series of Letter of Credit Backed PC Bonds to the extent provided in the respective  
26 Reimbursement Agreement, each holder of an Allowed Letter of Credit Bank Claim will receive  
27 Cash in an amount equal to its pro rata share of the interest portion of the purchase price of the  
28 tendered Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit.



1 On the Effective Date, the Letter of Credit Issuing Bank shall transfer the related Letter of Credit  
2 Backed PC Bonds in the aggregate principal amount as set forth on Exhibit 2 attached hereto to  
3 the Debtor free and clear of all liens. On the Effective Date, each holder of an Allowed Letter of  
4 Credit Bank Claim will receive its pro rata share of Cash in an amount equal to the principal  
5 portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a  
6 draw on the respective Letter of Credit.

7 (B) Remarketing Option. The respective series of  
8 Letter of Credit Backed PC Bonds shall be called for mandatory tender in accordance with the  
9 terms of the respective Indenture and shall be purchased by the respective Bond Trustee through  
10 a draw on the related Letter of Credit. The Debtor will then either (1) provide or cause to be  
11 provided to the respective Bond Trustee an alternative “Credit Facility” pursuant to the terms of  
12 the respective Indenture in lieu of the existing Letter of Credit, or (2) obtain the consent of the  
13 Issuer to remarket the respective series of Letter of Credit Backed PC Bonds without credit  
14 enhancement in accordance with the terms of the applicable Indenture. In either event the  
15 respective series of Letter of Credit Backed PC Bonds shall be remarketed, at par, in accordance  
16 with the terms of the Indenture and the other PC Bond Documents. In such event, on the  
17 Effective Date, the Letter of Credit Issuing Bank will receive (1) from the Debtor, to the extent  
18 that the Debtor has not reimbursed the applicable Letter of Credit Issuing Bank and the  
19 applicable Banks, if any, for drawings made on the related Letter of Credit with respect to the  
20 payment of interest on the related series of Letter of Credit Backed PC Bonds to the extent  
21 provided in the respective Reimbursement Agreement, Cash in an amount equal to the interest  
22 portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a  
23 draw on the respective Letter of Credit, and (2) from the Bond Trustee, an amount equal to the  
24 principal portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid  
25 out of a draw on the respective Letter of Credit, which amount shall be paid from the  
26 remarketing proceeds of the respective Letter of Credit Backed PC Bonds in accordance with the  
27 terms of the respective Indenture.

1 (C) No Bonds Option. With respect to each Letter of  
2 Credit Issuing Bank and the related Banks, if any, in the event that neither the Purchase Option  
3 nor the Remarketing Option, as applicable, can be consummated or the respective series of Letter  
4 of Credit Backed PC Bonds are redeemed on or prior to the Effective Date as the result of the  
5 expiration of the respective Letter of Credit or otherwise, then either:

6 (1) The Class 4e Claim of such Letter of Credit  
7 Issuing Bank and the applicable Banks, if any, would be converted to a Class 4f Claim in an  
8 amount equal to the amount due by the Debtor under the terms of the respective Reimbursement  
9 Agreement as reimbursement for amounts paid by such Letter of Credit Issuing Bank under its  
10 respective Letter of Credit to the Bond Trustee for the payment of the principal portion of the  
11 redemption price of the related series of Letter of Credit Backed PC Bonds; or

12 (2) If (i) the Letter of Credit Issuing Bank  
13 maintains its Letter of Credit outstanding in its initial stated amount through the Effective Date  
14 and does not provide the Trustee with notice of default under its Reimbursement Agreement or  
15 non-reinstatement of its Letter of Credit or take any other action which would result in the  
16 redemption, either in whole or in part, of the outstanding Letter of Credit Backed PC Bonds  
17 without the prior written consent of the Debtor, and (ii) the Letter of Credit Issuing Bank and  
18 each of the related Banks, if any, take all action reasonably required by the Debtor to keep the  
19 Letter of Credit Backed PC Bonds outstanding and to facilitate either the Purchase Option or the  
20 Remarketing Option, as applicable, including, without limitation, giving direction to the Trustee,  
21 providing commercially reasonable indemnification to the Issuer and Trustee, and using their  
22 best efforts to consummate the proposed amendments to the terms of the Letter of Credit Backed  
23 PC Bonds as set forth herein and to consummate either the Purchase Option or the Remarketing  
24 Option as applicable, so as to maintain for the Debtor the benefits of the tax-exempt financing  
25 provided by the related series of Letter of Credit Backed PC Bonds, then in the event that the  
26 Letter of Credit Backed PC Bonds are redeemed on or prior to the Effective Date for reasons  
27 beyond the control of the Letter of Credit Issuing Bank, the Letter of Credit Issuing Bank will  
28

1 receive Cash in an amount equal to the principal portion of the redemption price of the redeemed  
2 Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit.

3 (iii) Since the Petition Date, consistent with its duties as a  
4 Debtor-in-Possession, the Debtor has not reimbursed any of the Letter of Credit Issuing Banks  
5 for any of the payments they have made pursuant to the several post-petition draws by the  
6 respective Bond Trustee which have been applied to the payment of interest on the related series  
7 of Letter of Credit Backed PC Bonds. As a result thereof, each of the Letter of Credit Issuing  
8 Banks has had the right upon the passage of time, the giving of notice or both to (A) declare a  
9 default under its respective Reimbursement Agreement, (B) notify the respective Bond Trustee  
10 of such default, and (C) direct the respective Bond Trustee to call an "Event of Default" under  
11 the terms of the respective Indenture and, in accordance with the terms of the respective  
12 Indenture, cause the Bond Trustee to declare the respective series of Letter of Credit Backed PC  
13 Bonds immediately due and payable.

14 (iv) However, pursuant to the terms of the LC Bank Agreement,  
15 which was approved by Order of the Bankruptcy Court entered on April 9, 2002, the Letter of  
16 Credit Issuing Banks have agreed, among other things and subject to certain conditions, to (A)  
17 maintain each of the Letters of Credit outstanding in the stated amounts set forth on Exhibit 2  
18 attached hereto, (B) not provide the Trustee with notice of any default under any of the  
19 Reimbursement Agreements or non-reinstatement of any of the Letters of Credit or take any  
20 other action which would result in the mandatory tender or redemption, either in whole or in part,  
21 of any of the outstanding Letter of Credit Backed PC Bonds without the prior written consent of  
22 the Debtor, and (C) extend the expiration date of each of the Letters of Credit to the first business  
23 day subsequent to the one (1) year anniversary of the existing expiration date of each Letter of  
24 Credit existing as of the Petition Date. In consideration for such forbearance and other actions  
25 by the Letter of Credit Issuing Banks, the Debtor has agreed, among other things and subject to  
26 certain conditions, to pay to each Letter of Credit Issuing Bank, (1) during the period from and  
27 after the date such payments are approved by the Bankruptcy Court and continuing until the  
28 Confirmation Date, quarterly, in arrears, the Letter of Credit fee as set forth in the respective

1 Reimbursement Agreement (the “Original Letter of Credit Fee”), together with an amount equal  
2 to the positive difference, if any, of an amount per annum equal to two percent (2%) of the Stated  
3 Amount of the Letter of Credit, less the Original Letter of Credit Fee, which total fee accrues  
4 from and after December 1, 2001 and until the Confirmation Date, and has been payable on the  
5 same dates as are set forth for payment of Letter of Credit Fees in the applicable Reimbursement  
6 Agreement, and (2) during the period from and after the Confirmation Date and continuing until  
7 the Effective Date, quarterly, in arrears, the Original Letter of Credit Fee, together with an  
8 amount equal to the positive difference, if any, of an amount per annum equal to three percent  
9 (3%) of the Stated Amount of the Letter of Credit, less the Original Letter of Credit Fee, which  
10 total fee accrues from and after the Confirmation Date until the Effective Date, and shall be  
11 payable on the same dates as are set forth for payment of Letter of Credit fees in the applicable  
12 Reimbursement Agreement (the Original Letter of Credit Fee together with such additional sums  
13 being hereinafter referred to collectively as the “Forbearance, Extension and Letter of Credit  
14 Fees”).

15 (c) Impairment and Voting. Class 4e is impaired by the Plan. Each  
16 holder of an Allowed Letter of Credit Bank Claim is entitled to vote to accept or reject the Plan.

17 4.11 Class 4f - Prior Bond Claims.

18 (a) Allowance. The Prior Bond Claims shall be deemed Allowed  
19 Prior Bond Claims in the amount of \$453,550,000, plus any and all other accrued and unpaid  
20 amounts due by the Debtor under the terms of each of the Prior Reimbursement Agreements;  
21 provided, however, that each Allowed Prior Bond Claim will be paid in the amount necessary to  
22 render it unimpaired as set forth herein. The aggregate principal amount of Allowed Prior Bond  
23 Claims is subject to increase by the amount of any Letter of Credit Bank Claim that is converted  
24 to a Prior Bond Claim in accordance with Section 4.10(b)(ii)(C) hereof.

25 (b) Distributions. Each Allowed Prior Bond Claim will be reinstated  
26 and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code. On the  
27 Effective Date one of the following shall occur with respect to each Prior Reimbursement  
28 Agreement and all of the Allowed Prior Bond Claims arising with respect thereto:

1 (i) Each holder of an Allowed Prior Bond Claim will be paid  
2 Cash in an amount equal to (A) the outstanding Reimbursement Obligation, or portion thereof,  
3 owing to such holder, (B) any and all accrued and unpaid interest owing to such holder in respect  
4 of such Reimbursement Obligation or applicable portion thereof at a fluctuating rate of interest in  
5 accordance with the terms of the applicable Reimbursement Agreement, and (C) all other  
6 amounts due and owing to the respective holder of an Allowed Prior Bond Claim under the terms  
7 of the respective Prior Reimbursement Agreement, through the Effective Date.

8 (ii) Alternatively, upon the written request of the Debtor, with  
9 the prior written consent of the respective Prior Letter of Credit Issuing Bank, the related Banks  
10 and each of the other holders of Allowed Prior Bond Claims related thereto, each such holder of  
11 an Allowed Prior Bond Claim will be paid Cash in an amount equal to (A) any and all accrued  
12 and unpaid interest owing to such holder in respect of the Reimbursement Obligation or  
13 applicable portion thereof owing to such holder at a fluctuating rate of interest in accordance  
14 with the terms of the applicable Reimbursement Agreement, and (B) all other amounts (other  
15 than the Reimbursement Obligation or applicable portion thereof) due and owing to the  
16 respective holder of an Allowed Prior Bond Claim under the terms of the respective Prior  
17 Reimbursement Agreement, through the Effective Date. On the Effective Date, the applicable  
18 Prior Letter of Credit Issuing Bank, the related Banks and any other holders of Allowed Prior  
19 Bond Claims related thereto shall sell, transfer and assign to the Debtor or its assignee, all of the  
20 Prior Letter of Credit Issuing Banks', the applicable Banks', and all of the related Allowed Prior  
21 Bond Claim holders' rights, title and interest in the applicable Prior Reimbursement Agreement,  
22 including, but not limited to, the right to receive repayment of the Related Reimbursement  
23 Obligation, together with the right to receive payment of interest thereon as set forth in the  
24 applicable Prior Reimbursement Agreement, free and clear of all liens. In such event, on the  
25 Effective Date, the Debtor or its assignee shall purchase from the Prior Letter of Credit Issuing  
26 Bank, the related Banks and the holders of the related Allowed Prior Bond Claims, all of their  
27 rights, title and interests in the applicable Prior Reimbursement Agreement for a purchase price  
28 in Cash in an amount equal to the respective Reimbursement Obligation. All of the documents

1 related to the transfer and sale of rights under the Prior Reimbursement Agreement shall be in  
2 form and content satisfactory to the Debtor, the Prior Letter of Credit Issuing Bank, the related  
3 Banks and each of the other holders of Allowed Prior Bonds Claims related thereto.

4 (c) Impairment and Voting. Class 4f is unimpaired by the Plan. Each  
5 holder of an Allowed Prior Bond Claim is conclusively presumed to have accepted the Plan and  
6 is not entitled to vote to accept or reject the Plan.

7 4.12 Class 4g - Treasury PC Bond Claims.

8 (a) Allowance. The Treasury PC Bond Claims shall be deemed  
9 Allowed Treasury PC Bond Claims in the amount of \$80,770,000, plus accrued and unpaid pre-  
10 petition interest on such amount, plus Allowed Claims in the amount of all unpaid fees and  
11 expenses of the related Issuer and Bond Trustee accrued through the Petition Date under the  
12 terms of the applicable PC Bond Documents.

13 (b) Reinstatement of Claims. Each series of Treasury PC Bonds, and  
14 the Loan Agreements and PC Bond Documents related thereto, shall remain outstanding and be  
15 reinstated in accordance with section 1124(2) of the Bankruptcy Code. Each holder of a  
16 Treasury PC Bond shall be paid Cash in an amount equal to any and all accrued and unpaid  
17 interest owed to such holder in respect of such Treasury PC Bond in accordance with the terms  
18 thereof to and including the last scheduled interest payment date preceding the Effective Date.  
19 All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the applicable  
20 Loan Agreement shall also be paid in Cash.

21 (c) Impairment and Voting. Class 4g is unimpaired by the Plan. Each  
22 holder of an Allowed Treasury PC Bond Claim is conclusively presumed to have accepted the  
23 Plan and is not entitled to vote to accept or reject the Plan.

24 4.13 Class 5 - General Unsecured Claims.

25 (a) Distributions. Each holder of an Allowed General Unsecured  
26 Claim shall be paid Cash in an amount equal to such Allowed Claim (which shall include pre-  
27 petition interest only to the extent not previously paid).

1 (b) Impairment and Voting. Class 5 is impaired by the Plan. Each  
2 holder of an Allowed General Unsecured Claim is entitled to vote to accept or reject the Plan.

3 4.14 Class 6 - ISO, PX and Generator Claims.

4 (a) Distributions. Each holder of an Allowed ISO, PX and Generator  
5 Claim shall be paid Cash in an amount equal to such Allowed Claim (which shall include pre-  
6 petition interest only to the extent not previously paid).

7 (b) Impairment and Voting. Class 6 is impaired by the Plan. Each  
8 holder of an Allowed ISO, PX and Generator Claim is entitled to vote to accept or reject the  
9 Plan.

10 4.15 Class 7 - ESP Claims.

11 (a) Distributions. Each holder of an Allowed ESP Claim shall be paid  
12 Cash in an amount equal to such Allowed Claim (which shall include pre-petition interest only to  
13 the extent not previously paid).

14 (b) Impairment and Voting. Class 7 is impaired by the Plan. Each  
15 holder of an Allowed ESP Claim is entitled to vote to accept or reject the Plan.

16 4.16 Class 8 – Environmental, Fire Suppression, Pending Litigation, Tort and  
17 FERC License Claims.

18 (a) Distributions. Subject to Section 4.16(b), each Allowed  
19 Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claim shall be  
20 satisfied in full in the ordinary course of business at such time and in such manner as the Debtor  
21 or the Reorganized Debtor, as the case may be, is obligated to satisfy such Allowed Claim under  
22 applicable law. Except as provided under applicable non-bankruptcy law, Post-Petition Interest  
23 will not be paid on Allowed Environmental, Fire Suppression, Pending Litigation, Tort and  
24 FERC License Claims.

25 (b) Liquidation of Environmental, Fire Suppression, Pending  
26 Litigation, Tort and FERC License Claims. All Environmental, Fire Suppression, Pending  
27 Litigation, Tort and FERC License Claims are Disputed Claims and shall be determined,  
28 resolved, or adjudicated, as the case may be, in a manner as if the Chapter 11 Case had not been

1 commenced (except that, under sections 365 and/or 1123(b)(2) of the Bankruptcy Code,  
2 contractual provisions, accelerations and defaults eliminated or rendered unenforceable by such  
3 sections shall remain eliminated or unenforceable, and the stay shall remain in place for any  
4 Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims as to  
5 which sections 365 and/or 1123(b)(2) of the Bankruptcy Code are applicable) and shall survive  
6 the Effective Date as if the Chapter 11 Case had not been commenced and, upon the  
7 determination, resolution or adjudication of any such Claim as provided herein, such Claim shall  
8 be deemed to be an Allowed Environmental Claim, Allowed Fire Suppression Claim, Allowed  
9 Pending Litigation Claim, Allowed Tort Claim or Allowed FERC License Claim, as the case  
10 may be, in the amount or in the manner determined by a Final Order or by a binding award,  
11 agreement, or settlement; provided, however, that in addition to the Debtor's preservation of all  
12 rights and defenses respecting any Environmental Claim, Fire Suppression Claim, Pending  
13 Litigation Claim, Tort Claim or FERC License Claim that exist under applicable nonbankruptcy  
14 law, (i) any rejection, avoidance, recovery or other power or defense available to the debtor  
15 under section 365, 510 (except subordination), 542, 543, 544, 545, 547, 548, 549, 550, 553 or  
16 724 of the Bankruptcy Code is preserved, except with respect to any Environmental Order, and  
17 (ii) the Debtor may object under section 502 of the Bankruptcy Code to any Environmental  
18 Claim, Fire Suppression Claim, Pending Litigation Claim, Tort Claim or FERC License Claim  
19 on the ground that (A) such Environmental Claim, Fire Suppression Claim, Pending Litigation  
20 Claim, Tort Claim or FERC License Claim was not timely asserted in the Chapter 11 Case, (B)  
21 such Environmental Claim, Fire Suppression Claim, Pending Litigation Claim, Tort Claim or  
22 FERC License Claim is subject to any power or defense reserved in clause (i) of this sentence  
23 and/or is disallowable under section 502(d) of the Bankruptcy Code, or (C) such Environmental  
24 Claim, Fire Suppression Claim, Pending Litigation Claim, Tort Claim or FERC License Claim is  
25 disallowable under section 502(e) of the Bankruptcy Code, to the extent such section is relied on  
26 to ensure that there is no duplication in the claim of an allegedly subrogated claimant, on the one  
27 hand, and the underlying claimant whose claim allegedly gave rise to the subrogated claim, on  
28 the other. Subject to the foregoing, all Environmental, Fire Suppression, Pending Litigation,



1 Tort and FERC License Claims shall be determined and liquidated under applicable  
2 nonbankruptcy law in the administrative or judicial tribunal in which they are pending as of the  
3 Effective Date or, if no such action is pending on the Effective Date, in any administrative or  
4 judicial tribunal of appropriate jurisdiction (other than the Bankruptcy Court). To effectuate the  
5 foregoing, the entry of the Confirmation Order shall, effective as of the Effective Date, constitute  
6 a modification of any stay or injunction under the Bankruptcy Code that would otherwise  
7 preclude the determination, resolution, or adjudication of any Environmental Claims, Fire  
8 Suppression Claims, Pending Litigation Claims, Tort Claims or FERC License Claims, except  
9 for any Environmental Claim, Fire Suppression Claim, Pending Litigation Claim, Tort Claim or  
10 FERC License Claim arising out of the exercise by the Debtor, as Debtor-in-Possession, of any  
11 rejection, avoidance, recovery, or other power or defense available to it pursuant to any one or  
12 more of sections 365, 510 (except subordination), 542, 543, 544, 545, 547, 548, 549, 550, 553 or  
13 724 of the Bankruptcy Code, except with respect to any Environmental Order. Nothing  
14 contained in this section 4.16(b) will constitute or be deemed to constitute a waiver or release of  
15 any (i) claim, right or Cause of Action that the Debtor or Reorganized Debtor may have against  
16 any Person or Governmental Entity in connection with or arising out of any Environmental, Fire  
17 Suppression, Pending Litigation, Tort and FERC License Claims, including, but not limited to,  
18 any rights under Section 157(b) of Title 28, United States Code, or (ii) defense in any action or  
19 proceeding in any administrative or judicial tribunal, including, but not limited to, with respect to  
20 the jurisdiction of such administrative or judicial tribunal, except a defense to a Claim that was  
21 timely filed in the Chapter 11 Case and that constitutes an Environmental Claim, a Fire  
22 Suppression Claim, a Pending Litigation Claim, a Tort Claim or a FERC License Claim, where  
23 such defense is based on the discharge of section 1141(d) of the Bankruptcy Code. In light of  
24 the unimpaired pass-through treatment of Environmental Claims, Fire Suppression Claims,  
25 Pending Litigation Claims, Tort Claims and FERC License Claims hereunder, the Reorganized  
26 Debtor waives the discharge of section 1141(d) of the Bankruptcy Code as to any Claim that was  
27 timely filed in the Chapter 11 Case and that constitutes an Environmental Claim, a Fire  
28 Suppression Claim, a Pending Litigation Claim, a Tort Claim or a FERC License Claim.

1 As to any consent decree, injunction, cleanup and abatement order or any other  
2 administrative or judicial order or decree binding upon the Debtor and in effect as of the  
3 Effective Date (whether originating before or after the Petition Date) that pertains to any  
4 environmental matter described in clauses (a) through (c) of the definition of Environmental  
5 Claim herein (each an "Environmental Order"), each such Environmental Order, regardless of  
6 whether it constitutes or is characterized as an Environmental Claim, shall also survive the  
7 Effective Date as if the Chapter 11 Case had not been commenced, shall not be discharged under  
8 section 1141(d) of the Bankruptcy Code, and shall not otherwise be adversely affected by the  
9 Chapter 11 Case (except for any objection to such Environmental Claim based on the contention  
10 that such Environmental Order is an Environmental Claim that was not timely asserted in the  
11 Chapter 11 Case).

12 (c) Impairment and Voting. Class 8 is unimpaired by the Plan. Each  
13 holder of an Allowed Environmental, Fire Suppression, Pending Litigation, Tort or FERC  
14 License Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to  
15 accept or reject the Plan.

16 4.17 [Intentionally Left Blank].

17 4.18 Class 10 - Convenience Claims.

18 (a) Distributions. Each holder of an Allowed Convenience Claim  
19 shall be paid Cash in an amount equal to one hundred percent (100%) of such Allowed Claim.

20 (b) Impairment and Voting. Class 10 is unimpaired by the Plan. Each  
21 holder of an Allowed Convenience Claim is conclusively presumed to have accepted the Plan  
22 and is not entitled to vote to accept or reject the Plan.

23 4.19 Class 11 - QUIDS Claims.

24 (a) Allowance. The QUIDS Claims shall be deemed Allowed QUIDS  
25 Claims in the amount of \$300,000,000, plus accrued and unpaid pre-petition interest on such  
26 amount.

27 (b) Distributions. Each holder of an Allowed QUIDS Claim shall be  
28 paid Cash in an amount equal to such Allowed Claim.

1 (c) Impairment and Voting. Class 11 is impaired by the Plan. Each  
2 holder of an Allowed QUIDS Claim is entitled to vote to accept or reject the Plan.

3 4.20 Class 12- Workers' Compensation Claims.

4 (a) Distributions. Each Allowed Workers' Compensation Claim  
5 arising prior to the Petition Date shall be satisfied in full in the ordinary course of business at  
6 such time and in such manner as the Debtor or the Reorganized Debtor, as the case may be, is  
7 obligated to satisfy such Allowed Claim under applicable law. Post-Petition Workers'  
8 Compensation Claims are treated as Administrative Expense Claims herein and shall receive the  
9 same pass-through treatment as Workers' Compensation Claims arising prior to the Petition  
10 Date. Except as provided under applicable non-bankruptcy law, Post-Petition Interest will not be  
11 paid on any Workers' Compensation Claims. Nothing herein shall affect (i) the subrogation  
12 rights, to the extent applicable or available, of any surety of pre-petition or post-petition  
13 Workers' Compensation Claims or (ii) the rights of the Debtor to object, pursuant to the  
14 Bankruptcy Code, to the existence of any such subrogation rights.

15 (b) Impairment and Voting. Class 12 is unimpaired under the Plan.  
16 Each holder of an Allowed Workers' Compensation Claim is conclusively presumed to have  
17 accepted the Plan and is not entitled to vote to accept or reject the Plan.

18 4.21 Class 13 - Preferred Stock Equity Interests.

19 (a) Treatment. Each holder of a Preferred Stock Equity Interest shall  
20 retain its Preferred Stock in the Reorganized Debtor and shall be paid in Cash any dividends and  
21 sinking fund payments accrued in respect of such Preferred Stock through the last scheduled  
22 payment date prior to the Effective Date.

23 (b) Impairment and Voting. While the Commission believes that  
24 Class 13 is unimpaired by the Plan, certain holders of Preferred Stock Equity Interests may  
25 believe that Class 13 is impaired by the Plan. To avoid delaying the voting process, holders of  
26 Preferred Stock Equity Interests are being solicited to vote on the Plan as a precautionary  
27 measure so that the voting results will be available if it is determined by the Bankruptcy Court  
28 that such Class is impaired. Allowing the holders of Preferred Stock Equity Interests to vote

1 shall be without prejudice to the Commission's contention that this Class is unimpaired and the  
2 Commission reserves the right to contest any objection to the unimpaired status of this Class.

3 4.22 Class 14 - Common Stock Equity Interests.

4 (a) Treatment. The holders of Common Stock Equity Interests shall  
5 retain their interests in the Common Stock subject to dilution resulting from the issuance of  
6 Common Stock by the Reorganized Debtor as described in Article VII hereof.

7 (b) Impairment and Voting. Class 14 is impaired by the Plan. Each  
8 holder of an Allowed Common Stock Equity Interest is entitled to vote to accept or reject the  
9 Plan.

10 **ARTICLE V**

11 **PROVISIONS REGARDING VOTING AND**  
12 **DISTRIBUTIONS UNDER THE PLAN AND TREATMENT**  
13 **OF DISPUTED, CONTINGENT AND UNLIQUIDATED ADMINISTRATIVE**  
14 **EXPENSE CLAIMS, CLAIMS AND EQUITY INTERESTS**

15 5.1 Voting of Claims and Equity Interests. Each holder of record as of the  
16 Voting Record Date of an Allowed Claim or Equity Interest in an Impaired Class of Claims or  
17 Equity Interests set forth in Article IV hereof shall be entitled to vote separately to accept or  
18 reject the Plan with regard to each Impaired Class of Claims or Equity Interests as provided in  
19 the Procedures Order. If the Debtor objects to a Claim, the Claim becomes a Disputed Claim.  
20 The holder of a Disputed Claim is not entitled to vote on the Plan unless the Debtor or such  
21 holder of the Disputed Claim obtains an order of the Bankruptcy Court estimating the amount of  
22 the Disputed Claim for voting purposes. If the Debtor does not object to a Claim prior to the  
23 date on which the Disclosure Statement and the Ballot are transmitted to creditors and interest  
24 holders for voting, then the holder of such Claim will be permitted to vote on the Plan in the full  
25 amount of the Claim as filed.

26 5.2 Elimination of Vacant Classes. Any Class of Claims that is not occupied  
27 as of the commencement of the Confirmation Hearing by an Allowed Claim or a Claim  
28 temporarily allowed under Bankruptcy Rule 3018 or as to which no vote is cast shall be deemed  
eliminated from the Plan for purposes of voting to accept or reject the Plan and for purposes of

1 determining acceptance or rejection of the Plan by such Class pursuant to section 1129(a)(8) of  
2 the Bankruptcy Code.

3           5.3    Nonconsensual Confirmation. If any Impaired Class of Claims or Equity  
4 Interests entitled to vote shall not accept the Plan by the requisite statutory majorities provided in  
5 section 1126(c) of the Bankruptcy Code, then the Commission reserves the right to amend the  
6 Plan in accordance with Section 11.10 hereof or to undertake to have the Bankruptcy Court  
7 confirm the Plan under section 1129(b) of the Bankruptcy Code, or both.

8           5.4    Method of Distributions Under the Plan.

9           (a)    Disbursing Agent. All distributions under the Plan shall be made  
10 by the Debtor as Disbursing Agent or such other Entity designated by the Commission as  
11 Disbursing Agent. A Disbursing Agent shall not be required to provide any bond, surety or other  
12 security for the performance of its duties, unless otherwise ordered by the Bankruptcy Court;  
13 and, in the event that a Disbursing Agent is so otherwise ordered, all costs and expenses of  
14 procuring any such bond, surety or other security shall be borne by the Debtor.

15           (b)    Distributions to Holders as of the Distribution Record Date.

16           (i)    Subject to Bankruptcy Rule 9010, all distributions under  
17 the Plan shall be made (A) to the holder of each Allowed Claim or Equity Interest at the address  
18 of such holder as listed on the Debtor's Bankruptcy Schedules as of the Distribution Record  
19 Date, unless the Debtor has been notified in writing of a change of address, including, without  
20 limitation, by the filing of a timely proof of Claim or Equity Interest by such holder that provides  
21 an address for such holder different from the address reflected on the Debtor's Bankruptcy  
22 Schedules, or (B) pursuant to the terms of a particular indenture of the Debtor or in accordance  
23 with other written instructions of a trustee under such indenture.

24           (ii)   As of the close of business on the Distribution Record  
25 Date, the claims register and records of the stock transfer agent shall be closed, and there shall be  
26 no further changes in the record holder of any Claim or Equity Interest. The Debtor shall have  
27 no obligation to recognize any transfer of any Claim or Equity Interest occurring after the  
28 Distribution Record Date. The Debtor shall instead be authorized and entitled to recognize and

1 deal for all purposes of the Plan with only those record holders stated on the claims register or  
2 the records of the stock transfer agent as of the close of business on the Distribution Record  
3 Date.

4 (c) Distributions of Cash. Any payment of Cash made by the Debtor  
5 pursuant to the Plan shall, at the Debtor's option, be made by check drawn on a domestic bank or  
6 wire transfer.

7 (d) Timing of Distributions. Except as otherwise set forth in the Plan,  
8 payments and distributions to holders of Allowed Claims or Equity Interests on the Effective  
9 Date shall be made on the Effective Date, or as soon as practicable thereafter. Any payment or  
10 distribution required to be made under the Plan on a day other than a Business Day shall be made  
11 on the next succeeding Business Day.

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

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

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

25 (h) Escrow for Disputed Claims.

26 (i) General Treatment. On the Effective Date (or as soon as  
27 practicable thereafter), and after making all distributions required to be made on the Effective  
28 Date, the Reorganized Debtor shall establish one or more separate escrows, each of which shall

1 be administered by the Disbursing Agent in accordance with the terms hereof and pursuant to the  
2 direction of the Bankruptcy Court, and shall deposit or segregate into such escrow account(s)  
3 sufficient Cash to make distributions in respect of Disputed Claims; provided, however, that this  
4 provision shall not apply to Environmental Claims, Fire Suppression Claims, Pending Litigation  
5 Claims, Tort Claims, FERC License Claims and Workers' Compensation Claims. No  
6 distributions from the escrow(s) shall be made until such Disputed Claims have been Allowed or  
7 otherwise resolved by the Bankruptcy Court and any such distributions shall be made in  
8 accordance with the terms hereof. The Cash deposited into the escrow account(s) shall be  
9 invested in either (i) money market funds consisting primarily of short-term U.S. treasury  
10 securities, or (ii) obligations guaranteed by the United States of America or any agency thereof,  
11 at the Debtor's option. To the extent a Disputed Claim becomes an Allowed Claim, such  
12 Allowed Claim will be satisfied in the same manner as all other Allowed Claims of the same  
13 Class. In addition, the holder of such a Claim will receive Post-Petition Interest (to the extent  
14 such holder is entitled to Post-Petition Interest under the Plan). From and after the Effective  
15 Date, such Disputed Claim will earn interest at the same rate earned on the Cash deposited in  
16 escrow.

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

26 (iii) Additional Cash. If the amount of Cash deposited into the  
27 escrow(s) is insufficient to make the required payments once certain Disputed Claims become  
28 Allowed Claims, then the Reorganized Debtor will pay the holder of such Allowed Claim the

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

5           5.5    Objections to and Resolution of Administrative Expense Claims and  
6 Claims. Except as to applications for allowance of compensation and reimbursement of  
7 Professional Compensation and Reimbursement Claims under sections 330 and 503 of the  
8 Bankruptcy Code, the Reorganized Debtor shall, on and after the Confirmation Date, have the  
9 right to make and file objections to Administrative Expense Claims and Claims. In addition, the  
10 Commission shall, on and after the Confirmation Date, have full party-in-interest status to make  
11 and file objections to Administrative Expense Claims and Claims and to appear and be heard  
12 with respect thereto. Except as to applications for allowance of compensation and  
13 reimbursement of Professional Compensation and Reimbursement Claims under sections 330  
14 and 503 of the Bankruptcy Code, and with respect to objections filed by the Commission, on and  
15 after the Effective Date, the Reorganized Debtor, shall have the authority to compromise, settle,  
16 otherwise resolve or withdraw any objections to Administrative Expense Claims and Claims and  
17 compromise, settle or otherwise resolve Disputed Administrative Expense Claims and Disputed  
18 Claims without the approval of the Bankruptcy Court. Unless otherwise ordered by the  
19 Bankruptcy Court, (a) all objections to Claims (except for Administrative Expense Claims) shall  
20 be served and filed upon the holder of the Claim as to which the objection is made (and, as  
21 applicable, upon the Debtor, the Committee and the Commission) as soon as practicable, but in  
22 no event later than the Effective Date, and (b) all objections to Administrative Expense Claims  
23 shall be served and filed upon the holder of the Administrative Expense Claim as to which the  
24 objection is made (and, as applicable, upon the Debtor, the Committee and the Commission) as  
25 soon as practicable, but in no event later than ninety (90) days after the Effective Date.

26           5.6    Payment of the Trustees', Issuer's and Certain Bank Fees. To the extent  
27 allowed by law and any underlying agreement, any unpaid fees and expenses accrued through  
28 the Confirmation Date (except for any unpaid fees and expenses previously disallowed by the





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

---

25  
26 <sup>5</sup> A copy of PG&E's Plan Supplement can be obtained through the "Pacific Gas & Electric  
27 Company Chapter 11 Case" link available through the website maintained by the Bankruptcy  
28 Court at <http://www.canb.uscourts.gov>. PG&E's Plan Supplement is listed under docket  
number 4579.

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

6           6.2     Schedules of Rejected Executory Contracts and Unexpired Leases;

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

20           6.3     Approval of Assumption or Rejection of Executory Contracts and

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

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.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

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  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**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 Equity Interests 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. SUCH TERMS AND ESTIMATED AMOUNTS 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. At all times prior to their issuance the Committee shall be given reasonable observation rights in the process of structuring, marketing, pricing and selling the securities. 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 \$3.86 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 Interests.

(b) New Equity Interests. On or before the Effective Date, the Reorganized Debtor shall issue and sell, through one or more private or public offerings, new Equity Interests in the Reorganized Debtor sufficient to yield net proceeds of approximately \$1.75 billion. The net proceeds of the Reorganized Debtor's issuance and sale of new Equity Interests shall be used to fund payments to holders of Allowed Claims and Allowed Equity Interests.

1                   7.2     Settlement of Litigation. On or before the Effective Date, the Debtor shall  
2 dismiss the Rate Recovery Litigation, with prejudice. At such time, the Debtor shall execute and  
3 deliver to the Commission all pleadings and release documents required by the Commission in  
4 connection with such dismissal, which shall be in form and substance satisfactory to the  
5 Commission, specifically releasing any and all claims and Causes of Action that the Debtor has  
6 or may have against the State of California and the Commission and their respective present and  
7 former commissioners (in their official capacities), officers, employees, advisors, consultants and  
8 professionals, that arise from:

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

13                   (b)     the Commission's implementation prior to the Effective Date of  
14 Assembly Bill 1 of the 2001-02 First Extraordinary Session (Ch. 4, Stats. 2001-02 1<sup>st</sup> Ex. Sess.)  
15 and Assembly Bill 6 of the 2001-02 First Extraordinary Session (Ch. 2, Stats. 2001-02 1<sup>st</sup> Ex.  
16 Sess.), including CPUC Decision Nos. 01-03-081 and 01-04-005; and

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

19                   7.3     New Tax Sharing Agreement. On or before the Effective Date, or as soon  
20 as practicable thereafter, the Reorganized Debtor and the Parent shall have executed and  
21 delivered the New Tax Sharing Agreement.

22                   7.4     Corporate Governance.

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



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

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

15 7.5 Regulatory Approvals. The Commission shall adopt such decisions or  
16 orders as are necessary to implement the provisions of Article VII of this Plan, it being  
17 understood that, as of and subject to the occurrence of the Confirmation Date, this Plan and the  
18 Confirmation Order shall be irrevocably binding upon the Commission, notwithstanding such  
19 future decisions and orders of the Commission. The Debtor shall timely seek any other  
20 regulatory approvals from all applicable Governmental Entities that the Debtor believes are  
21 necessary to effectuate the transactions specified herein.

22 7.6 Working Capital Facility. On or before the Effective Date, or as soon as  
23 practicable thereafter, the Reorganized Debtor shall obtain and establish a working capital  
24 facility (the "Exit Facility") for the purposes of funding operating expenses and seasonal  
25 fluctuations in working capital and providing letters of credit, as well as funding distributions to  
26 the holders of Allowed Claims, if necessary. The terms of the Exit Facility are set forth on  
27 Exhibit 3.  
28



1 (d) The Reorganized Debtor shall have obtained and established the  
2 Exit Facility;

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

6 (f) the Debtor shall dismiss the Rate Recovery Litigation with  
7 prejudice and the Debtor shall have executed and delivered to the Commission all pleadings and  
8 release documents required by the Commission in connection with such dismissal, which shall be  
9 in form and substance satisfactory to the Commission;

10 (g) S&P and Moody's shall have issued credit ratings for the  
11 Reorganized Debtor and its debt securities of not less than BBB- and Baaa3, respectively;

12 (h) the Debtor shall have received all authorizations, consents,  
13 regulatory approvals, rulings, letters, no-action letters, opinions or documents that are necessary  
14 to implement the Plan; and

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

17 8.3 Effect of Failure of Conditions. In the event that one or more of the  
18 conditions specified in Section 8.2 hereof shall not have occurred or been waived on or before  
19 January 30, 2003 (or such later date as may be hereafter provided in an amended Section 8.2(a)),  
20 (a) the Confirmation Order shall be vacated, (b) no distributions under the Plan shall be made,  
21 (c) the Debtor and all holders of Claims and Equity Interests shall be restored to the status quo  
22 ante as of the day immediately preceding the Confirmation Date as though the Confirmation  
23 Order had never been entered, and (d) the Debtor's obligations with respect to Claims and Equity  
24 Interests shall remain unchanged and nothing contained herein shall constitute or be deemed a  
25 waiver or release of any Claims or Equity Interests by or against the Debtor or any Person or  
26 Governmental Entity or to prejudice in any manner the rights of the Debtor or any Person or  
27 Governmental Entity in any further proceedings involving the Debtor; provided, however, that  
28 the amounts paid pursuant to Section 4.2(a) hereof on account of Post-Petition Interest may be

1 recharacterized as a payment upon the applicable Allowed Claims, in the Debtor's sole  
2 discretion, but the Debtor will not otherwise seek to recover such amounts.

3 8.4 Waiver of Conditions. As provided in Section 11.10 hereof, the  
4 Commission may waive one or more of the conditions precedent set forth in Section 8.2 hereof,  
5 provided however, that the condition set forth in Section 8.2(g) may only be waived pursuant to a  
6 Final Order of the Bankruptcy Court obtained by motion filed by the Commission and after  
7 notice and a hearing on not less than ten (10) days' notice to the Debtor, the Commission and the  
8 United States Trustee.

## 9 **ARTICLE IX**

### 10 **EFFECT OF CONFIRMATION OF PLAN**

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

17 9.2 Revesting of Assets. On the Effective Date, except as otherwise  
18 transferred, sold or otherwise provided for in the Plan, the property of the Debtor's estate shall  
19 vest in the Reorganized Debtor.

20 9.3 Operations Following Effective Date. From and after the Effective Date,  
21 the Reorganized Debtor may operate its business, and may use, acquire and dispose of property  
22 free of any restrictions imposed under the Bankruptcy Code. As of the Effective Date, all  
23 property of the Reorganized Debtor shall be free and clear of all Liens, claims and interests of  
24 holders of Claims and Equity Interests, except as otherwise provided in the Plan.

25 9.4 Claims Extinguished. As of the Effective Date, any and all avoidance  
26 claims accruing to the Debtor under sections 502(d), 544, 545, 547, 548, 549, 550 and 551 of the  
27 Bankruptcy Code and not then pending, shall be extinguished. All other Causes of Action of the  
28

1 Debtor, other than those expressly released or dismissed with prejudice hereunder, shall vest in  
2 the Reorganized Debtor.

3           9.5    Discharge of Debtor. The rights afforded herein and the treatment of all  
4 Claims and Equity Interests herein shall be in exchange for and in complete satisfaction,  
5 discharge and release of Claims and Equity Interests of any nature whatsoever, including any  
6 interest accrued on such Claims from and after the Petition Date, against the Debtor or any of its  
7 assets or properties. Except as otherwise provided herein, as of the Effective Date (a) all such  
8 Claims against and Equity Interests in the Debtor shall be satisfied, discharged and released in  
9 full and (b) all Persons and Governmental Entities shall be precluded from asserting against the  
10 Debtor, its successors, or its assets or properties any other or further Claims or Equity Interests  
11 based upon any act or omission, transaction or other activity of any kind or nature that occurred  
12 prior to the Confirmation Date.

13           9.6    Injunction. In addition to and except as otherwise expressly provided  
14 herein, in the Confirmation Order or a separate order of the Bankruptcy Court, all entities who  
15 have held, hold or may hold Claims against or Equity Interests in the Debtor, are permanently  
16 enjoined, on and after the Effective Date, from (a) commencing or continuing in any manner any  
17 action or other proceeding of any kind with respect to such Claim or Equity Interest, (b) the  
18 enforcement, attachment, collection or recovery by any manner or means of any judgment,  
19 award, decree or order against the Reorganized Debtor on account of any such Claim or Equity  
20 Interest, (c) creating, perfecting or enforcing any Lien of any kind against the Reorganized  
21 Debtor or against the Reorganized Debtor's property or interests in property on account of any  
22 such Claim or Equity Interest, (d) asserting any right of setoff, subrogation or recoupment of any  
23 kind against any obligation due from the Reorganized Debtor or against the Reorganized  
24 Debtor's property or interests in property on account of any such Claim or Equity Interest, and  
25 (e) commencing or continuing in any manner any action or other proceeding of any kind with  
26 respect to any claims and Causes of Action which are extinguished, dismissed or released  
27 pursuant to the Plan. The injunction shall also enjoin all parties in interest, including, without  
28 limitation, all entities who have held, hold or may hold Claims against or Equity Interests in the

1 Debtor, from taking any action in violation of the Confirmation Order. Such injunction shall  
2 extend to the successors of the Reorganized Debtor, their properties and interests in property.  
3 Except as provided by Sections 11.4, 11.5 and 11.6 hereof, this Section 9.6 shall not enjoin, bar  
4 or otherwise impair the commencement or prosecution of direct personal claims against any  
5 Person other than the Reorganized Debtor, including claims against the Parent.

## 6 **ARTICLE X**

### 7 **RETENTION OF JURISDICTION**

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

- 16 (a) to hear and determine matters related to the Plan;
- 17 (b) to hear and determine applications for the assumption or rejection  
18 of executory contracts or unexpired leases, if any are pending, and the allowance of cure  
19 amounts and Claims resulting therefrom;
- 20 (c) to hear and determine any and all adversary proceedings,  
21 applications and contested matters;
- 22 (d) to hear and determine any objection to Administrative Expense  
23 Claims or Claims;
- 24 (e) to enter and implement such orders as may be appropriate in the  
25 event the Confirmation Order is for any reason stayed, revoked, modified or vacated;
- 26 (f) to issue such orders in aid of execution and consummation of the  
27 Plan, to the extent authorized by section 1142 of the Bankruptcy Code;
- 28

1 (g) to consider any amendments to or modifications of the Plan, to  
2 cure any defect or omission, or to reconcile any inconsistency in any order of the Bankruptcy  
3 Court, including, without limitation, the Confirmation Order;

4 (h) to hear and determine all applications for compensation and  
5 reimbursement of expenses of professionals under sections 330, 331 and 503(b) of the  
6 Bankruptcy Code;

7 (i) to hear and determine disputes arising in connection with the  
8 interpretation, implementation or enforcement of the Plan and/or the Confirmation Order;

9 (j) to hear and determine proceedings to recover assets of the Debtor  
10 and property of the Debtor's estate, wherever located;

11 (k) to hear and determine matters concerning state, local and federal  
12 taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code;

13 (l) to hear and determine matters concerning the escrow(s), if any,  
14 established pursuant to Section 5.4(h) hereof;

15 (m) to hear any other matter not inconsistent with the Bankruptcy  
16 Code; and

17 (n) to enter a final decree closing the Chapter 11 Case.

## 18 **ARTICLE XI**

### 19 **MISCELLANEOUS PROVISIONS**

20 11.1 Effectuating Documents and Further Transactions. Pursuant to section  
21 1142 of the Bankruptcy Code, the Debtor (or the Reorganized Debtor after the Effective Date),  
22 shall execute, deliver, file or record such contracts, instruments, releases, indentures and other  
23 agreements or documents and take such other actions as may be necessary or appropriate to  
24 effectuate and further evidence the terms and conditions of the Plan and any securities issued  
25 pursuant to the Plan.

26 11.2 Corporate Action. On the Effective Date, all matters provided for under  
27 the Plan that would otherwise require approval of the Debtor's shareholders or Board of  
28 Directors shall be deemed to have occurred and shall be in effect from and after the Effective

1 Date pursuant to the applicable general corporation law of California, the state in which the  
2 Debtor is incorporated, without any requirement of further action by the Debtor's shareholders or  
3 Board of Directors. On the Effective Date, or as soon as practicable thereafter, the Debtor, shall,  
4 if required, file its amended articles of incorporation with the Secretary of State of California, in  
5 accordance with the applicable general corporation law of California.

6           11.3 Exemption from Transfer Taxes. Pursuant to section 1146(c) of the  
7 Bankruptcy Code, the issuance, transfer or exchange of notes or issuance of equity securities  
8 under the Plan, the creation of any mortgage, deed of trust or other security interest, the making  
9 or assignment of any lease or sublease, or the making or delivery of any deed or other instrument  
10 of transfer under, in furtherance of, or in connection with the Plan, shall not be subject to any  
11 stamp, real estate transfer, documentary transfer, mortgage recording, sales, use or other similar  
12 tax. All sale transactions consummated by the Debtor and approved by the Bankruptcy Court on  
13 and after the Petition Date through and including the Effective Date, including, without  
14 limitation, the sales, if any, by the Debtor of owned property or assets pursuant to section 363(b)  
15 of the Bankruptcy Code, shall be deemed to have been made under, in furtherance of, or in  
16 connection with the Plan and, therefore, shall not be subject to any stamp, real estate transfer,  
17 documentary transfer, mortgage recording, sales, use or other similar tax.

18           11.4 Releases by Debtor.

19           (a) As of the Effective Date, and subject to the release by the  
20 Releasees set forth in Section 11.5 below, the Debtor releases all of the Releasees from any and  
21 all Causes of Action held by, assertable on behalf of or derivative of the Debtor, in any way  
22 relating to the Debtor, the Debtor-in-Possession, the Chapter 11 Case, the Plan, negotiations  
23 regarding or concerning the Plan and the ownership, management and operation of the Debtor;  
24 provided, however, that the foregoing shall not operate as a waiver of or release from any Causes  
25 of Action arising out of any express contractual obligation owing by any former director, officer  
26 or employee to the Debtor or any reimbursement obligation of any former director, officer or  
27 employee with respect to a loan or advance made by the Debtor to such former director, officer  
28



1 or employee and is not a waiver of or release for any professionals retained in connection with  
2 this Chapter 11 Case from claims by their respective clients.

3 (b) As of the Effective Date, the Debtor releases the Commission, its  
4 present and former commissioners in their official capacities and their respective successors, the  
5 State of California and its officers and commissioners and their respective successors, as well as  
6 the Commission's and the State's present and former employees, advisors, consultants and  
7 professionals from any and all Causes of Action held by, assertable on behalf of or derivative of  
8 the Debtor, in any way relating to the Debtor as Debtor-in-Possession, the Chapter 11 Case, the  
9 Plan, negotiations regarding or concerning the Plan and the ownership, management and  
10 operation of the Debtor as Debtor-in-Possession.

11 11.5 Limited Release by Releasees. In consideration for release of the  
12 Releasees in Section 11.4(a) and other valuable consideration, as of the Effective Date, each of  
13 the Releasees, at its option, generally releases the Debtor and the Debtor-in-Possession and the  
14 Reorganized Debtor, in each case in any capacity, from any and all Causes of Action held by,  
15 assertable on behalf of or derivative from such Releasee, in any way relating to the Debtor, the  
16 Debtor-in-Possession, the Chapter 11 Case, the Plan, negotiations regarding or concerning the  
17 Plan and the ownership, management and operation of the Debtor. The release by the Debtor in  
18 Section 11.4(a) hereof shall be provided only to Releasees who execute and deliver to the Debtor  
19 a release as provided in this Section 11.5 and in a form acceptable to the Debtor.

20 11.6 Exculpation. As of and subject to the occurrence of the Confirmation  
21 Date, (a) the Commission shall have been deemed to have negotiated the Plan in good faith, (b)  
22 the Commission shall be deemed to have solicited acceptances of the Plan in good faith and in  
23 compliance with the applicable provisions of the Bankruptcy Code, including, without limitation  
24 section 1125(a) of the Bankruptcy Code, and any applicable non-bankruptcy law, rule or  
25 regulation governing the adequacy of disclosure in connection with such solicitation, and (c) the  
26 Commission and its individual commissioners in their official capacities, and the Commission's  
27 agents, employees, advisors and attorneys shall be deemed to have participated in good faith and  
28 in compliance with the applicable provisions of the Bankruptcy Code in connection with the

1 offer and issuance of any securities under the Plan, and therefore, neither the Commission nor its  
2 individual commissioners nor any of the Commission's agents, employees, advisors and  
3 professionals shall have or incur any liability to any holder of a Claim or Equity Interest or other  
4 party in interest for any act or omission in connection with, related to, or arising out of, the  
5 Chapter 11 Case, negotiations regarding or concerning the Plan, the pursuit of confirmation of  
6 the Plan, the consummation of the Plan, or the administration of the Plan or the property to be  
7 distributed under the Plan, except for willful misconduct or gross negligence, and, in all respects,  
8 the Commission and its individual commissioners, and the Commission's agents, employees,  
9 advisors and professionals shall be entitled to rely upon the advice of counsel with respect to  
10 their duties and responsibilities under the Plan.

11           11.7 Termination of Committee. The appointment of the Committee shall  
12 terminate on the Effective Date, subject to continuation for specific purposes by a Final Order of  
13 the Bankruptcy Court.

14           11.8 Fees and Expenses.

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

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

1                   11.9 Payment of Statutory Fees. All fees payable pursuant to Section 1930 of  
2 title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation  
3 Hearing, shall be paid on or before the Effective Date.

4                   11.10 Amendment or Modification of the Plan.

5                   (a) Alterations, amendments or modifications of or to the Plan may be  
6 proposed in writing by the Commission at any time prior to the Confirmation Date, provided that  
7 the Plan, as altered, amended or modified, satisfies the conditions of sections 1122 and 1123 of  
8 the Bankruptcy Code and the Commission shall have complied with section 1125 of the  
9 Bankruptcy Code. The Plan may be altered, amended or modified by the Commission at any  
10 time after the Confirmation Date and before substantial consummation of the Plan, provided that  
11 the Plan, as altered, amended or modified, satisfies the requirements of sections 1122 and 1123  
12 of the Bankruptcy Code and the Bankruptcy Court, after notice and a hearing, confirms the Plan,  
13 as altered, amended or modified, under section 1129 of the Bankruptcy Code and the  
14 circumstances warrant such alterations, amendments or modifications. A holder of a Claim or  
15 Equity Interest that has accepted the Plan shall be deemed to have accepted the Plan, as altered,  
16 amended or modified, if the proposed alteration, amendment or modification does not materially  
17 and adversely change the treatment of such holder's Claim or Equity Interest.

18                   (b) The Commission and the Committee shall negotiate in good faith  
19 any and all material amendments or modifications to the Plan or in connection with any proposed  
20 waiver concerning any provision of the Plan, including, but not limited to, the waiver of any  
21 conditions to confirmation of the Plan or to the Effective Date of the Plan. If the Commission  
22 and the Committee do not agree upon any such proposed amendments, modifications or waivers,  
23 then the Commission shall only implement such amendments, modifications or waivers pursuant  
24 to a Final Order of the Bankruptcy Court obtained by motion of the Commission and after notice  
25 and a hearing on not less than ten (10) days' notice to the Debtor, the Committee and the United  
26 States Trustee. The provisions of this paragraph shall apply to all terms and conditions hereof,  
27 including, but not limited to, Sections 8.1, 8.2, 8.4, 11.10 and 11.12. Notwithstanding the  
28 foregoing provisions of this Section 11.10(b), the condition in Section 8.2(g) (investment grade

1 rating) may only be waived pursuant to a Final Order of the Bankruptcy Court obtained by  
2 motion of the Commission and after notice and a hearing on not less than ten (10) days' notice to  
3 the Debtor, the Committee and the United States Trustee.

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 Commission reserves the right  
11 to revoke or withdraw the Plan prior to the Confirmation Date. If the Commission revokes or  
12 withdraws the Plan prior to the Confirmation Date, then the Plan shall be deemed null and void.  
13 In such event, nothing contained herein shall constitute or be deemed a waiver or release of any  
14 claims by or against the Debtor or any other Person or Governmental Entity, including the  
15 Commission, or to prejudice in any manner the rights of the Debtor or any Person or  
16 Governmental Entity, including the Commission, in any further proceedings involving the  
17 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 Commission, the Debtor, the Reorganized Debtor,  
20 the holders of Claims and Equity Interests, other parties in interest, and their respective  
21 successors 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

1 *If to the United States Trustee:*

2 The Office of the United States Trustee  
3 250 Montgomery Street, Suite 1000  
4 San Francisco, California 94104  
5 Attn: Stephen L. Johnson  
6 Telephone: (415) 705-3333  
7 Facsimile: (415) 705-3379

8 11.15 Governing Law. Except to the extent the Bankruptcy Code, Bankruptcy  
9 Rules or other federal law is applicable, or to the extent an exhibit to the Plan provides  
10 otherwise, the rights and obligations arising under this Plan shall be governed by, and construed  
11 and enforced in accordance with, the laws of the State of California, without giving effect to the  
12 principles of conflicts of law of such jurisdiction.

13 11.16 Withholding and Reporting Requirements. Except as otherwise provided  
14 by the Plan, in connection with the consummation of the Plan, the Debtor shall comply with all  
15 applicable withholding and reporting requirements imposed by any federal, state, local or foreign  
16 taxing authority and all distributions hereunder shall be subject to any such withholding and  
17 reporting requirements.

18 11.17 Commission's Plan Supplement. The following documents will be  
19 contained in the Commission's Plan Supplement, which shall be filed with the Clerk of the  
20 Bankruptcy Court at least ten (10) days prior to the Confirmation Date:

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

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

1                    11.18 Exhibits/Schedules. All exhibits and schedules to the Plan, including the  
2 Commission's Plan Supplement, are incorporated into and are a part of the Plan as if set forth in  
3 full herein.

4                    11.19 Subrogation Rights. Nothing in the Plan shall affect (a) the subrogation  
5 rights of any surety, to the extent applicable or available, which, if available or applicable, shall  
6 remain in full force and effect, or (b) the rights of the Debtor to object, pursuant to the  
7 Bankruptcy Code, to the existence of such subrogation rights.

8 DATED: May 17, 2002

9  
10 CALIFORNIA PUBLIC UTILITIES  
11 COMMISSION

12 By: \_\_\_\_\_  
13 Gary M. Cohen  
14 General Counsel

15 APPROVED AS TO CONTENT AND FORM:

16 PAUL, WEISS, RIFKIND, WHARTON  
17 & GARRISON

18 By: \_\_\_\_\_  
19 Counsel for the California Public  
20 Utilities Commission

# PLAN EXHIBIT 1

## Interest Rates for Allowed Claims

Contract Type	Class	Interest Rate/Calculation Method <sup>1</sup>	Compounding Interval Before First Payment	Interest Commencement Date	Payment Dates After First Payment
<b>A. Contract<sup>2</sup>—Other than PC Bonds or First and Refunding Mortgage Bonds</b>					
Floating Rate Notes <sup>3</sup>	5	Base Interest Rate: 7.583% <sup>4</sup>	Quarterly	Last Date Interest Paid	Quarterly
Revolving Line of Credit <sup>3</sup>	5	Base Interest Rate: 8.000%	Quarterly	Last Date Interest Paid	Quarterly
Medium Term Notes <sup>3</sup>	5	Interest Rate: See Exhibit D of Disclosure Statement- “Security Description”	Semiannually	Last Date Interest Paid	Quarterly
Senior Notes <sup>3</sup>	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 <sup>3</sup>	5	Per Contract	Semiannually	Last Date Interest Paid	Quarterly
L/C Banks <sup>3</sup>	4e	Per Contract	N/A	Last Date Interest Paid	Quarterly
Prior Bonds <sup>3</sup>	4f	Per Contract	N/A	Last Date Interest Paid	Quarterly
MBIA Reimbursement <sup>3</sup>	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 <sup>3</sup>	11	Per Contract	Quarterly	Last Date Interest Paid	Quarterly
<b>B. Contract<sup>2</sup> —First and Refunding Mortgage Bonds</b>					
First and Refunding—	3	Per Contract	Semiannually	Last Date Interest Paid	Per Contract



<b>C. Contract<sup>2</sup>—PC Bonds</b>						
	Mortgage Backed	4a	Per Contract	Per Contract	Last Date Interest Paid	Per Contract
	MBIA Backed <sup>5</sup>	4b	Per Contract	Per Contract	Last Date Interest Paid	Per Contract
	L/C Backed <sup>5</sup>	4d	Per Contract	Per Contract	Last Date Interest Paid	Per Contract
	Treasury <sup>3</sup>	4g	Per Contract	Per Contract	Last Date Interest Paid	Quarterly
<b>D. Non-Contract<sup>2</sup>—OCC Contract Specified</b>						
	Commercial Paper <sup>3</sup>	5	Base Interest Rate: 7.466% <sup>5</sup>	Quarterly	Last Date Interest Paid	Quarterly
	ISO/Generator <sup>7</sup>	6	Qtly. Floating LIBOR + 2% <sup>8</sup>	Annually	To be Determined	Quarterly
	ISDA Claims <sup>7</sup>	5	Floating LIBOR + 2%	Annually	Petition Date	Quarterly
<b>E. Non-Contract</b>						
	Priority Tax Claims		Statutory	Statutory	Statutory	Statutory
	ESP <sup>7</sup>	7		Annually	Petition Date	Quarterly
	Intercompany <sup>7</sup>	5	Lowest Default Rate Under Applicable Statute, Indenture or Instrument <sup>9</sup>	Annually	Petition Date	Quarterly
	Gas Procurement <sup>7</sup>	5	Lowest Default Rate Under Applicable Statute, Indenture or Instrument <sup>9</sup>	Annually	Petition Date	Quarterly
	Other Trade Payables <sup>7</sup>	5	Lowest Default Rate Under Applicable Statute, Indenture or Instrument <sup>9</sup>	Annually	Petition Date	Quarterly
	Convenience Class <sup>7,10</sup>	10	Lowest Default Rate Under Applicable Statute, Indenture or Instrument <sup>9</sup>	Annually	Petition Date	Quarterly
	Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims	8	As Applicable Under Non-Bankruptcy Law			
	Workers' Compensation	12	As Applicable Under Non-Bankruptcy Law			

<sup>1</sup> See Exhibit D of the Disclosure Statement for specific interest rates on certain instruments.

<sup>2</sup> "Contract" refers to contractual provisions regarding interest calculations.

- <sup>3</sup> The first payment will be made ten days after the date that PG&E's Disclosure Statement is approved for the period ended on February 28, 2001.
- <sup>4</sup> Calculated based on actual days elapsed over 360 days, with an implied yield of 7.690%.
- <sup>5</sup> Payments have been made when due in respect of these obligations by the Debtor, MBIA or the Letter of Credit Issuing Banks, as applicable.
- <sup>6</sup> Paid by Bond Trustee with payments on Mortgage Bonds.
- <sup>7</sup> The first payment will be made on July 30, 2002 for the period ended on June 30, 2002.
- <sup>8</sup> Determined on the Petition Date and each anniversary prior to the date of first payment and quarterly thereafter.
- <sup>9</sup> 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.
- <sup>10</sup> 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

<b>Issuer</b>	Reorganized Debtor.
<b>Amount</b>	Estimated to aggregate \$3,860,000
<b>Credit Rating</b>	At least BBB- by S&P and Baa3 by Moody's.
<b>Coupon Rate</b>	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.
<b>Maturity</b>	To be determined.
<b>Amortization</b>	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.
<b>Denominations</b>	\$1,000
<b>Interest Payment Date</b>	Semi-annually.
<b>Ranking</b>	The New Notes will be Unsecured.
<b>Optional Redemption</b>	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.

## **Amendments**

- Ministerial amendments may be adopted without noteholder consent.
- Modification and amendments may be made by the

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.

<b>Amount</b>	<u>Facility</u>	<u>Total Line</u>
	a) Revolver	\$1,885,000,000
	b) Capital Expenditure Sub-Facility	
	c) Letters of Credit	
<b>Sublimits</b>	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.	
<b>Credit Rating</b>	At least BBB- by S&P and Baa3 by Moody's.	
<b>Interest Rate</b>	TBD	
<b>Interest Frequency</b>	TBD	
<b>Default Interest Rate</b>	TBD	
<b>Maturity</b>	<u>Facility</u>	<u>Maturity</u>
	a) Revolver	January 31, 2008
	b) Letters of Credit	January 31, 2008
<b>Ranking</b>	Secured by inventory and receivables.	
<b>Structuring Fee</b>	TBD	
<b>Unused Commitment Fee</b>	TBD	
<b>Excess Cash Flow Sweep</b>	TBD	
<b>Covenants</b>	TBD	
<b>Events of Default</b>	TBD	
<b>Collateral Terms</b>	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(a) 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.



“IRS” 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.

## **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 (ii) over the amount specified in clause (i) 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

which a payment is due shall be referred to an independent accounting firm whose fees shall be 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

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 Adjustment, 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.

(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:

# **EXHIBIT B**

**(To Be Provided)**

# **EXHIBIT C**

## **EXHIBIT C**

### **PROJECTIONS**

#### *i) Responsibility for and Purpose of the Projections*

As a condition to confirmation of a plan, the Bankruptcy Code requires, among other things, that the Bankruptcy Court determine that confirmation is not likely to be followed by the liquidation or the need for further financial reorganization of the debtor. In connection with the development of the Plan, and for purposes of determining whether the Plan satisfies this feasibility standard, the Commission has, through the development of financial projections (the “Projections”), analyzed the ability of the Debtor to meet its obligations under the Plan and maintain sufficient liquidity and capital resources to conduct its business. The Projections were also prepared to assist holders of Claims in Impaired Classes – Classes 4(c), 4(e), 5, 6, 7, 10, 11 and 14 -- in determining whether to accept or reject the Plan.

The Projections should be read in conjunction with the assumptions, qualifications and footnotes to the tables containing the Projections set forth herein and the historical consolidated financial information (including the notes and schedules thereto) and the other information set forth in the Parent’s Annual Report on Form 10-K for the fiscal year ended December 31, 2001. The Projections rely substantially upon the financial projections set forth in the PG&E Disclosure Statement. The Commission and its advisors then applied further adjustments to the Debtor’s financial projections. The Projections, which were prepared in April 2002, were based, in part, on economic, competitive, regulatory and general business conditions prevailing at the time. While as of the date of this Disclosure Statement such conditions have not materially changed, any future changes in these conditions may materially impact the ability of the Debtor to achieve the Projections.

THE PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARDS COMPLYING WITH THE GUIDELINES FOR PROSPECTIVE FINANCIAL STATEMENTS PUBLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. THE PARENT’S INDEPENDENT ACCOUNTANT, DELOITTE & TOUCHE LLP, HAS NEITHER COMPILED NOR EXAMINED THE ACCOMPANYING PROSPECTIVE FINANCIAL INFORMATION TO DETERMINE THE REASONABLENESS THEREOF AND, ACCORDINGLY, HAS NOT EXPRESSED AN OPINION OR ANY OTHER FORM OF ASSURANCE WITH RESPECT HERETO.

THE COMMISSION DOES NOT, AS A MATTER OF COURSE, PUBLISH PROJECTIONS OF THE DEBTOR’S ANTICIPATED FINANCIAL POSITION, RESULTS OF OPERATIONS OR CASH FLOWS. ACCORDINGLY, THE COMMISSION DOES NOT INTEND TO, AND DISCLAIMS ANY OBLIGATION TO (A) FURNISH UPDATED PROJECTIONS TO HOLDERS OF

CLAIMS OR EQUITY INTERESTS PRIOR TO THE EFFECTIVE DATE OR ANY OTHER PARTY AFTER THE EFFECTIVE DATE, (B) INCLUDE SUCH UPDATED INFORMATION IN ANY DOCUMENTS THAT MAY BE REQUIRED TO BE FILED WITH THE SEC, OR (C) OTHERWISE MAKE SUCH UPDATED INFORMATION PUBLICLY AVAILABLE.

THE PROJECTIONS PROVIDED IN THE DISCLOSURE STATEMENT HAVE BEEN PREPARED BY THE COMMISSION AND ITS ADVISORS. THESE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS WHICH, THOUGH CONSIDERED REASONABLE BY THE COMMISSION, MAY NOT BE REALIZED, AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMMISSION AND THE DEBTOR. THE COMMISSION CAUTIONS THAT NO REPRESENTATIONS CAN BE MADE AS TO THE ACCURACY OF THESE FINANCIAL PROJECTIONS OR TO THE REORGANIZED DEBTOR'S ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE. FURTHER, EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THESE PROJECTIONS WERE PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE OCCURRENCE OF THESE EVENTS MAY AFFECT FINANCIAL RESULTS IN A MATERIAL AND POSSIBLY ADVERSE MANNER. THE PROJECTIONS, THEREFORE, MAY NOT BE RELIED UPON AS A GUARANTY OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR. EXCEPT AS PROVIDED IN SECTION 7.5 OF THE PLAN, THE PROJECTIONS ALSO MAY NOT BE RELIED UPON AS A GUARANTY OR ASSURANCE OF THE OUTCOME OF FUTURE COMMISSION PROCEEDINGS INVOLVING THE DEBTOR AND/OR THE REORGANIZED DEBTOR.

*ii) Summary of Significant Assumptions*

The Commission has developed the Projections (summarized below) to assist creditors in their evaluation of the Plan and to analyze its feasibility. THE PROJECTIONS ARE BASED PRIMARILY UPON OPERATING FORECASTS AND ASSUMPTIONS AS PRESENTED IN THE PG&E DISCLOSURE STATEMENT FILED ON APRIL 3, 2002. ACTUAL OPERATING RESULTS AND VALUES MAY AND LIKELY WILL VARY FROM THOSE PROJECTED.

*a. Fiscal Years.* The Debtor's fiscal year ends on December 31 of each year.

*b. Plan Terms and Consummation.* The Projections assume an Effective Date of January 31, 2003 with Allowed Claims and Equity Interests treated in accordance

with the treatment provided in the Plan with respect to such Allowed Claims and Equity Interests.

*c. General Economic Conditions.* The Projections were prepared assuming that economic conditions in the markets served by the Debtor do not differ significantly over the next three years from current economic conditions. Inflation in revenues and costs are assumed to remain relatively low.

*d. Regulatory Environment.* The Commission does not presently anticipate any material changes in PG&E's regulatory environment that would adversely impact the Debtor's and/or the Reorganized Debtor's business in a material way or its ability to implement the Commission's Plan.

### **Income Statement**

*a. Revenues.* The revenue projections relied substantially on the projected income statement set forth in the PG&E Disclosure Statement. As such, the Debtor's revenue projections served as the initial basis. Revenues include customer payments for: (i) electric and gas distribution services; (ii) public service programs; and (iii) Rate Reduction Bonds ("RRBs"). Furthermore, revenues reflect expected base revenue increases from general rate case and attrition proceedings intended to enable the Reorganized Debtor to recover increased costs due to inflation, customer growth and rate base growth, and to a certain extent, adjustments to satisfy and meet cost of capital guidelines as authorized by the Commission. Excluded from the revenue projections were revenues collected for electric energy procured by DWR on behalf of the Reorganized Debtor's customers. Revenues have been adjusted from the Debtor's projections such that the Debtor recovers reasonable expenses as well as the regulated return on capital, which is currently approximately 9.0%.

*b. Operating Expenses.* The operating expense projections relied substantially on the projected income statement set forth in the PG&E Disclosure Statement. As such, the Debtor's operating expense projections served as the primary basis for the operating expenses assumed in the Plan. Operating expenses include: (i) cost of energy, including electric and gas commodity procured on behalf of retail electric and gas customers; (ii) operating & maintenance and administrative & general ("O&M and A&G") costs; (iii) property and other taxes; and (iv) the amortization of RRBs.

*c. Depreciation Expense.* Depreciation expense was estimated based upon a depreciation schedule which assumed approximately \$1.6 billion in annual capital expenditures, an average depreciable life of 15 years for remaining fixed assets and an average depreciable life of 30 years for new additions to fixed assets.

*d. Interest Expense.* Interest expense was estimated based upon the Commission's estimate of projected outstanding interest-bearing liabilities and associated interest rates which are largely based upon the proposed and forward-looking capitalization of the Reorganized Debtor pursuant to the Plan. For purposes of calculating interest expense, interest-bearing liabilities include: (i) proposed reinstated debt, (ii) proposed refinanced debt, (iii) proposed post-emergence new debt, including a

new credit facility and (iv) Rate Reduction Bonds. Interest expense is presented net of interest income, if any, earned on the Reorganized Debtor's cash balance.

*e. Income Tax Expense.* Income tax expenses were estimated using a 35% federal tax rate and an 8.84% state tax rate, which yields a combined tax rate of approximately 40.7%. For purposes of the Plan projections, income tax expense projections did not account for the potential effect of any existing and applicable net operating loss ("NOL") carryforwards.

*f. Preferred Dividends.* Preferred dividend arrearages are paid upon plan consummation. Preferred Dividends are estimated at approximately \$24 million per year, which is consistent with the projections presented in the Debtor's estimate. The imputed annual dividend payout ratio is approximately 5.5%.

*g. EBITDA.* For purposes of developing the Projections, earnings before interest, taxes, depreciation and amortization ("EBITDA") is defined as revenues less the sum of: (i) operating expenses, which includes cost of energy, O&M and A&G costs; (ii) property and other taxes; and (iii) and amortization of RRBs. Operating expenses exclude depreciation expense and non-recurring expenses.

*h. Headroom.* The Projections assume that "headroom" (or the amount by which electric delivery revenues collected by the Debtor exceed all authorized operating costs, including power procurements costs, financing costs and dividends) is negligible.

## **Balance Sheet**

*a. Cash.* Through January 31, 2003, the Debtor is projected to have approximately \$3.6 billion of cash available for creditors. At the Effective Date, certain pre-petition claims may or will be paid which will have the effect of reducing cash and projected claims at emergence. During the Projection Period, cash is comprised primarily of restricted cash plus nominal excess cash, if any.

*b. Accounts Receivable.* Accounts receivable is comprised primarily of receivables from the Debtor's electric and gas customers, in addition to nominal receivable balances from related parties.

*c. Net PP&E.* Net property, plant and equipment ("PP&E") is comprised primarily of electric and gas generating plants, transmission lines and retail distribution infrastructure.

*d. Other Non-Current Assets.* Other non-current assets include regulatory assets, nuclear decommissioning trust funds, construction work in progress and other adjustments.

*e. Accounts Payable.* Accounts payable is comprised primarily of payables to trade creditors and related parties, in addition to regulatory balancing accounts.



*f. Rate Reduction Bonds.* Rate Reduction Bonds are expected to amortize \$290 million per year.

*g. Reinstated Obligations.* Reinstated obligations include certain pre-petition claims in Classes 3 and 4 under the Plan (approximately \$3.9 billion) and certain other claims that will be satisfied in the ordinary course of the Debtor's or the Reorganized Debtor's business, namely environmental claims, chromium claims and workers' compensation claims.

*h. Other Liabilities.* Other liabilities include deferred tax credits and accrued taxes.

*i. Refinanced Debt.* The Plan proposes refinancing approximately \$281 million of certain pre-petition indebtedness, namely the portion of outstanding First & Refunding Mortgage Bonds due in August 2003, prior to the maturity date, but after the Effective Date.

*j. Post-Emergence New Debt.* The Plan proposes the issuance and sale, through one or more public or private offerings, of approximately \$3.9 billion of new notes. Furthermore, the Plan also proposes syndicating a new credit facility to provide additional liquidity for the Reorganized Debtor and to fund the Debtor's future capital expenditure and working capital needs.

*k. Reinstated Preferred Equity.* The Plan proposes reinstating approximately \$430 million of pre-petition preferred equity interests.

*l. Common Equity.* At the Effective Date, common equity is calculated as the estimated total assets of the Debtor less liabilities, total debt and preferred equity.

*iii) Special Note Regarding Forward-Looking Statements*

Except for historical information, statements contained in this Disclosure Statement and incorporated by reference, including the projections in this section, may be considered "forward-looking statements" within the meaning of federal securities law. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to, general economic and business conditions, the competitive and regulatory environment in which the Debtor operates and will operate, the success or failure of the Debtor in implementing its current business and operational strategies and the liquidity of the Debtor on a cash flow basis (including the ability to comply with the financial covenants of its credit arrangements and to fund the Debtor's capital expenditure program). For additional information about the Debtor and relevant risk factors, see Section X of the Commission's Disclosure Statement regarding certain risk factors to be considered in connection with the Commission's Plan.

*iv) Financial Projections*

The financial projections prepared by the Commission and its advisors are summarized in the following tables. Specifically, the attached tables include:

- a. Projected balance sheets for fiscal years 2003, 2004 and 2005.
- b. Projected income statements for fiscal years 2003, 2004 and 2005.
- c. Projected statements of cash flow for the 11 months ending December 31, 2003, fiscal year 2004 and fiscal year 2005.

All captions in the attached projections do not correspond exactly to the Debtor's historical external reporting; some captions have been combined for presentation purposes.

# PACIFIC GAS AND ELECTRIC COMPANY

## FINANCIAL PROJECTIONS

Dollars in \$Millions

	<b>PROJECTED</b>		
	FY 2003	FY 2004	FY 2005
<b>ASSETS</b>			
Cash	\$ 524	\$ 522	\$ 623
Accounts Receivable	1,854	1,860	1,892
Inventory	233	214	217
Prepaid Assets, Other	86	86	86
Current Assets	<u>2,697</u>	<u>2,681</u>	<u>2,818</u>
Net PP&E	14,650	15,203	15,703
Other Non-Current Assets (1)	6,429	6,139	5,849
Total Assets	<u>\$ 23,776</u>	<u>\$ 24,024</u>	<u>\$ 24,370</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 942	\$ 927	\$ 929
Deferred Income Taxes	1,024	1,024	1,024
Rate Reduction Bonds	1,156	866	576
Reinstated Obligations	918	918	918
Other Liabilities	4,041	4,041	4,041
Total Liabilities	<u>8,081</u>	<u>7,776</u>	<u>7,488</u>
<b>INVESTED CAPITAL</b>			
Reinstated Debt	3,578	3,268	2,978
Refinanced Debt	281	281	281
Post-Emergence Debt	3,860	3,860	3,860
Total Debt	<u>7,719</u>	<u>7,409</u>	<u>7,119</u>
Reinstated Preferred Equity	430	430	430
Common Equity	7,546	8,409	9,333
Total Equity	<u>7,976</u>	<u>8,839</u>	<u>9,763</u>
Total Invested Capital	<u>15,695</u>	<u>16,248</u>	<u>16,882</u>
Liabilities + Total Invested Capital	<u>\$ 23,776</u>	<u>\$ 24,024</u>	<u>\$ 24,370</u>

Notes:

- (1) Includes construction work in progress of approximately \$336 million, \$277 million and \$232 million for FY 2003, FY 2004 and FY 2005, respectively.

# PACIFIC GAS AND ELECTRIC COMPANY

## FINANCIAL PROJECTIONS

Dollars in \$Millions

	<b>PROJECTED</b>		
	FY	FY	FY
	2003	2004	2005
	(1)		
<b>INCOME STATEMENT</b>			
Revenue	\$ 9,272	\$ 9,298	\$ 9,462
Operating Expenses	<u>6,361</u>	<u>6,180</u>	<u>6,192</u>
EBITDA	2,911	3,117	3,270
Depreciation	<u>969</u>	<u>1,047</u>	<u>1,100</u>
EBIT	1,942	2,071	2,170
Interest Expense, Net	644	576	572
Other Expense / (Income)	<u>-</u>	<u>-</u>	<u>-</u>
Pretax Income	1,298	1,495	1,598
Income Tax Rate	40.7%	40.7%	40.7%
Income Tax Expense	<u>528</u>	<u>609</u>	<u>651</u>
Net Income Before Preferred Dividends	770	887	948
Preferred Dividends	<u>24</u>	<u>24</u>	<u>24</u>
Net Income	746	863	924
Common Dividends (2)	<u>-</u>	<u>-</u>	<u>-</u>
Retained Net Income	\$ 746	\$ 863	\$ 924
<u>Return on Rate Base:</u>			
Retained Net Income	\$ 746	\$ 863	\$ 924
+ Common Dividends (2)	-	-	-
+ Preferred Dividends	24	24	24
+ Interest Expense	<u>644</u>	<u>576</u>	<u>572</u>
Income to Shareholders and Creditors	1,414	1,462	1,519
Rate Base (Book Capitalization) (3)	\$ 15,695	\$ 16,248	\$ 16,882
<b>Return on Rate Base (3)</b>	<b>9.0%</b>	<b>9.0%</b>	<b>9.0%</b>

Notes:

(1) Reflects 12 months of operations, from January 1, 2003 to December 31, 2003.

(2) Amount to be determined.

(3) For purposes of this analysis, rate base was assumed to approximate book capitalization.

# PACIFIC GAS AND ELECTRIC COMPANY

## FINANCIAL PROJECTIONS

Dollars in \$Millions

	<b>PROJECTED</b>		
	FY	FY	FY
	2003	2004	2005
	(1)		
<b>STATEMENT OF CASH FLOW</b>			
Retained Net Income	\$ 695	\$ 863	\$ 924
+ Depreciation	890	1,047	1,100
+/- Change in Current Assets	-	14	(35)
+/- Change in Current Liabilities	-	(15)	2
Cash Flow from Operations	<u>1,585</u>	<u>1,908</u>	<u>1,991</u>
- Capital Expenditures	(1,467)	(1,600)	(1,600)
+/- Other Assets	<u>266</u>	<u>290</u>	<u>290</u>
Cash Flow from Investing	<u>(1,201)</u>	<u>(1,310)</u>	<u>(1,310)</u>
+/- Reinstated Debt	(281)	(310)	(290)
+/- Refinanced Debt	281	-	-
+/- Post-Emergence Debt	-	-	-
+/- Reinstated Preferred Equity	-	-	-
- RRB Asset Amortization	(266)	(290)	(290)
+/- Reinstated Obligations	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flow from Financing	<u>(266)</u>	<u>(600)</u>	<u>(580)</u>
Beg Balance, Cash (2)	405	524	522
Net Cash Flow (1)	<u>119</u>	<u>(2)</u>	<u>101</u>
End Balance, Cash	\$ 524	\$ 522	\$ 623

Notes:

(1) Sources and uses in cash for FY 2003 reflects 11 months of operations, from February 1, 2003 to December 31, 2003.

(2) Beginning cash balance of \$405 million in FY 2003 is as of February 1, 2003.

# **EXHIBIT D**

**Schedule of Currently Outstanding Securities of the Debtor**

<b><u>Type of Security</u></b>	<b><u>Security Description</u></b>	<b><u>Class</u></b>	<b><u>CUSIP</u></b>
First and Refunding Mortgage Bond	8.800%	3a	694308 DV6
Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank
First and Refunding Mortgage Bond	8.3750%	3a	694308 EF0
First and Refunding Mortgage Bond	8.2500%	3a	694308 EG8
First and Refunding Mortgage Bond	7.2500%	3a	694308 EM5
First and Refunding Mortgage Bond	6.2500%	3a	694308 EU7
First and Refunding Mortgage Bond	7.2500%	3a	694308 EV5
First and Refunding Mortgage Bond	5.8750%	3a	694308 EW3
First and Refunding Mortgage Bond	6.7500%	3a	694308 EY9
First and Refunding Mortgage Bond	6.2500%	3a	694308 FA0
First and Refunding Mortgage Bond	7.0500%	3a	694308 FB8
First and Refunding Mortgage Bond	Floating	3a	No CUSIP
First Preferred Stock	5% Non-Redeemable	13	694308 404
First Preferred Stock	5.5% Non-Redeemable	13	694308 305
First Preferred Stock	6% Non-Redeemable	13	694308 206
First Preferred Stock	4.36% Redeemable	13	694308 883
First Preferred Stock	4.50% Redeemable	13	694308 800
First Preferred Stock	4.80% Redeemable	13	694308 701
First Preferred Stock	5% Redeemable Series D	13	694308 503
First Preferred Stock	5% Redeemable Series E	13	694308 602
First Preferred Stock	6.30% Redeemable	13	694308 651
First Preferred Stock	6.57% Redeemable	13	694308 693
First Preferred Stock	7.04% Redeemable	13	694308 685

<b><u>Type of Security</u></b>	<b><u>Security Description</u></b>	<b><u>Class</u></b>	<b><u>CUSIP</u></b>
Commercial Paper	Maturity Date 1/17/01	5	69430J NH2
Commercial Paper	Maturity Date 1/18/01	5	69430J NJ8
Commercial Paper	Maturity Date 1/19/01	5	69430J NK5
Commercial Paper	Maturity Date 1/22/01	5	69430J NN9
Commercial Paper	Maturity Date 1/23/01	5	69430J NP4
Commercial Paper	Maturity Date 1/24/01	5	69430J NQ2
Commercial Paper	Maturity Date 1/26/01	5	69430J NS8
Commercial Paper	Maturity Date 1/29/01	5	69430J NV1
Commercial Paper	Maturity Date 1/30/01	5	69430J NW9
Commercial Paper	Maturity Date 1/31/01	5	69430J NX7
Commercial Paper	Maturity Date 2/2/01	5	69430J P23
Commercial Paper	Maturity Date 2/5/01	5	69430J P56
Commercial Paper	Maturity Date 2/6/01	5	69430J P64
Commercial Paper	Maturity Date 2/8/01	5	69430J P80
Commercial Paper	Maturity Date 2/9/01	5	69430J P98
Commercial Paper	Maturity Date 2/12/01	5	69430J PC1
Commercial Paper	Maturity Date 2/13/01	5	69430J PD9
Commercial Paper	Maturity Date 2/15/01	5	69430J PF4
Commercial Paper	Maturity Date 2/16/01	5	69430J PG2
Commercial Paper	Maturity Date 2/20/01	5	69430J PL1
Commercial Paper	Maturity Date 2/22/01	5	69430J PN7
Commercial Paper	Maturity Date 2/27/01	5	69430J PT4
Commercial Paper	Maturity Date 2/28/01	5	69430J PU1
Commercial Paper	Maturity Date 3/1/01	5	69430J Q14
Commercial Paper	Maturity Date 3/6/01	5	69430J Q63
Commercial Paper	Maturity Date 3/9/01	5	69430J Q97
Commercial Paper	Maturity Date 3/12/01	5	69430J QC0
Commercial Paper	Maturity Date 3/14/01	5	69430J QE6
Commercial Paper	Maturity Date 3/16/01	5	69430J QG1
Commercial Paper	Maturity Date 3/26/01	5	69430J QS5
Commercial Paper	Maturity Date 3/29/01	5	69430J QV8
Commercial Paper	Maturity Date 3/30/01	5	69430J QW6



<b><u>Type of Security</u></b>	<b><u>Security Description</u></b>	<b><u>Class</u></b>	<b><u>CUSIP</u></b>
Cumulative Quarterly Income Debentures <sup>1</sup>	7.90% Series A	11	694308 GA9
Pollution Control Bonds	6.625%	4a	130534 UJ7
Pollution Control Bonds	6.350%	4a	130534 UP3
Pollution Control Bonds	5.875%	4a	130534 UY4
Pollution Control Bonds	5.850%	4a	130534 VA5
Pollution Control Bonds	5.350%	4b	130534 WY2
Pollution Control Bonds	Floating	4d	130534 XA3
Pollution Control Bonds	Floating	4d	130534 XX3
Pollution Control Bonds	Floating	4d	130534 XD7
Pollution Control Bonds	Floating	4d	130534 XL9
Prior Bond Claims	Floating	4f	No CUSIP
Pollution Control Bonds (in treasury)	Floating	4g	130534XM7
Pollution Control Bonds (in treasury)	Floating	4g	130534XE5
Southern San Joaquin Valley Power Authority	12.000%	5	843787 AG7
Southern San Joaquin Valley Power Authority	9.000%	5	843787 AH5
Southern San Joaquin Valley Power Authority	9.150%	5	843787 AJ1
Southern San Joaquin Valley Power Authority	9.300%	5	843787 AK8
Southern San Joaquin Valley Power Authority	9.400%	5	843787 AL6
Southern San Joaquin Valley Power Authority	9.450%	5	843787 AM4
Southern San Joaquin Valley Power Authority	9.450%	5	843787 AN2
Southern San Joaquin Valley Power Authority	9.600%	5	843787 AU6
Bank Line	Floating	5	No CUSIP

<sup>1</sup> Holders of Claims in this Class currently hold Cumulative Quarterly Income Preferred Securities (CUSIP 69331F 200) which are to be exchanged for the security listed.

<b>Type of Security</b>	<b>Security Description</b>	<b>Class</b>	<b>CUSIP</b>
DWR	7.400%	5	No CUSIP
Floating Rate Notes	Floating Rate Note	5	694308 FT9
Floating Rate Notes	Floating Rate Note	5	U69430 AB9
Senior Notes	7.375% Senior Note	5	694308 FU6
Senior Notes	7.375% Senior Note	5	U69430 AC7
Medium-Term Notes B	8.180%	5	69430T AT8
Medium-Term Notes B	8.200%	5	69430T AY7
Medium-Term Notes B	8.120%	5	69430T BN0
Medium-Term Notes B	8.130%	5	69430T BL4
Medium-Term Notes B	8.120%	5	69430T BR1
Medium-Term Notes B	7.950%	5	69430T BT7
Medium-Term Notes B	7.930%	5	69430T BX8
Medium-Term Notes B	7.960%	5	69430T CB5
Medium-Term Notes B	8.000%	5	69430T CD1
Medium-Term Notes B	7.960%	5	69430T CF6
Medium-Term Notes B	7.970%	5	69430T CG4
Medium-Term Notes B	7.960%	5	69430T CK5
Medium-Term Notes B	7.970%	5	69430T CL3
Medium-Term Notes B	8.450%	5	69430T CM1
Medium-Term Notes B	7.750%	5	69430T DA6
Medium-Term Notes B	7.500%	5	69430T CZ2
Medium-Term Notes B	7.375%	5	69430T DB4
Medium-Term Notes B	7.670%	5	69430T DK4
Medium-Term Notes B	7.650%	5	69430T DP3
Medium-Term Notes B	8.140%	5	69430T DS7
Medium-Term Notes C	7.660%	5	69430T DV0
Medium-Term Notes C	7.650%	5	69430T DW8
Medium-Term Notes C	8.140%	5	69430T DZ1
Medium-Term Notes C	7.730%	5	69430T EB3
Medium-Term Notes C	8.270%	5	69430T EC1
Medium-Term Notes C	7.560%	5	69430T EG2
Medium-Term Notes C	8.040%	5	69430T EK3
Medium-Term Notes C	6.290%	5	69430T EV9
Medium-Term Notes C	6.680%	5	69430T FR7
Medium-Term Notes C	7.570%	5	69430T FX4
Medium-Term Notes C	5.940%	5	69430T GP0

<b>Type of Security</b>	<b>Security Description</b>	<b>Class</b>	<b>CUSIP</b>
Medium-Term Notes C	6.710%	5	69430T GH8
Medium-Term Notes C	5.810%	5	69430T GT2
Medium-Term Notes C	5.930%	5	69430T GR6
Medium-Term Notes C	6.030%	5	69430T GS4
Medium-Term Notes D	6.280%	5	69430T HG9
Medium-Term Notes D	6.220%	5	69430T HS3
Medium-Term Notes D	6.350%	5	69430T HT1
Medium-Term Notes D	6.550%	5	69430T HQ7
Medium-Term Notes D	6.480%	5	69430T HY0
Medium-Term Notes D	6.240%	5	69430T JC6
Medium-Term Notes D	6.420%	5	69430T JG7
Medium-Term Notes D	7.400%	5	69430TJL6
Medium-Term Notes D	7.880%	5	69430T JM4