

TO: THE CREDITORS AND INTEREST HOLDERS OF PACIFIC GAS AND ELECTRIC COMPANY

FROM: THE CALIFORNIA PUBLIC UTILITIES COMMISSION AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

RE: SUPPLEMENTAL DISCLOSURE FOR THE CALIFORNIA PUBLIC UTILITIES COMMISSION'S AND THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS' FIRST AMENDED PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE FOR PACIFIC GAS & ELECTRIC COMPANY

Introduction and Background

As the holder of a claim against or interest in Pacific Gas & Electric Company (the "Debtor"), you should have received certain solicitation materials after June 17, 2002, including a ballot, asking you to vote to accept or reject and, where applicable, to indicate a preference between (i) the California Public Utilities Commission's Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for Pacific Gas & Electric Company (the "Commission's Original Plan"), and (ii) the competing plan of reorganization for the Debtor (the "PG&E Plan") filed by the Debtor and PG&E Corporation, its parent company (the "Parent"), and together with the Debtor, collectively "PG&E"). The initial solicitation period ended on August 12, 2002 and all properly submitted ballots have been counted.

Subsequent to the close of the initial voting period, the California Public Utilities Commission (the "Commission") and the Official Committee of Unsecured Creditors appointed in this case (the "Committee"), and together with the Commission, collectively, the "Proponents") have agreed to certain material modifications to the Commission's Original Plan, which are summarized below. On August 30, 2002, the Proponents filed their Amended Plan containing the agreed upon modifications with the

Bankruptcy Court.¹ A blacklined copy of the Amended Plan marked to show the changes to the Commission's Original Plan is attached hereto as Exhibit A.

At a hearing on September __, 2002, among other things, to consider the Proponents' request for an additional thirty (30) days to resolicit votes and preferences for the Amended Plan, the Bankruptcy Court found that the modifications contained in the Amended Plan are "material" and ordered a thirty (30) day resolicitation period. The Bankruptcy Court further found that this supplemental disclosure contained "adequate information", as required under section 1125(b) of the Bankruptcy Code, approved the form of ballot attached hereto and authorized the Committee to transmit the attached revised report and recommendation urging unsecured creditors to vote for and to prefer the Amended Plan.

The Bankruptcy Court's order authorized the Proponents to resolicit only those creditors and interest holders who previously did not vote or who voted to reject the Commission's Original Plan or to prefer the PG&E Plan. If you did not vote, or you voted to reject the Commission's Original Plan or to prefer the PG&E Plan, then you may vote for the first time now or change your vote and/or preference, as the case may be, by submitting the enclosed ballot in the enclosed self-addressed, stamped envelope in accordance with the balloting and mailing instructions contained in the ballot. In addition, if you voted to accept the PG&E Plan and to reject the Commission's Original Plan and would now like to change your vote to accept the Amended Plan, then you may

¹ Capitalized terms used and not defined herein shall have the meanings ascribed to them in the Amended Plan. As used herein, "Amended Plan" shall mean the California Public Utilities Commission's and Official Committee of Unsecured Creditors' First Amended Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company.

do so, in which case you are free to make a preference election between the PG&E Plan and the Commission's Plan. To be counted, your ballot must be received by the voting agent, Innisfree M&A Incorporated, no later than 5:00 p.m. (Eastern time) on October __, 2002.

IMPORTANT: The Bankruptcy Court ordered that creditors and interest holders that voted to accept and to prefer the Commission's original plan are deemed to have accepted and preferred the Amended Plan. **If you previously voted to accept and to prefer the Commission's original plan you do not need to resubmit a new ballot; your prior ballot will continue to count and any subsequent ballot will not be counted.** In addition, this is not a resolicitation of acceptances or rejections of the PG&E Plan. Accordingly, absent Bankruptcy Court permission, you may not recast your vote for or against the PG&E Plan. **Your prior ballot accepting or rejecting the PG&E Plan shall continue to count.**

For ease of reference, a copy of the Bankruptcy Court's order detailing the foregoing is included herewith.

In considering whether to recast your ballot to accept or to prefer the Amended Plan, the Proponents urge you to review this supplemental disclosure and the Amended Plan as well as the Commission's Disclosure Statement, dated May 17, 2002, describing the Commission's Original Plan, which is hereby incorporated by reference as though it were fully set forth herein. In addition, the Proponents encourage you to consider the Committee's revised report and recommendation urging unsecured creditors to vote for and to prefer the Amended Plan.

A summary of the "material" plan modifications necessitating the Proponents' resolicitation of their Amended Plan is set forth below.²

Summary of Plan Modifications

I. The Committee is a Co-Proponent of the Amended Plan.

By order dated July 9, 2002, the Bankruptcy Court terminated the Debtor's plan exclusivity to allow the Committee to file an alternative plan of reorganization. Since then, the Committee and the Commission have engaged in extensive discussions to improve the Commission's Original Plan to make it mutually acceptable to each without disrupting the confirmation process the Bankruptcy Court already has put in place. The modifications described herein and contained in the Amended Plan are the product of those discussions and have resulted in the Committee becoming a co-proponent with the Commission of the Amended Plan.

II. The Reorganization Agreement.

The Amended Plan includes among its means for implementation and as a condition to its effectiveness the Commission's and the Debtor's entry into a Reorganization Agreement, substantially in the form attached as Exhibit 5 to the Amended Plan. Essentially, the Reorganization Agreement requires the Commission to establish retail electric rates for the Debtor's customers sufficient to (i) pay the interest and dividends payable on, fund required reserves for, and allow the Debtor to meet its other obligations in respect of the securities to be issued under the Amended Plan, (ii) pay

² The Amended Plan also contains certain "technical" modifications that were the subject of an earlier Commission filing with the Bankruptcy Court on August 8, 2002, prior to the expiration of the original voting deadline. A summary of those "technical" modifications can be found through the "Pacific Gas & Electric Company Chapter 11 Case" link available through the website maintained by the Bankruptcy Court at <http://www.canb.uscourts.gov>. The Docket No. is 9515.

for the Debtor's prudently-incurred costs, including capital investment in property, plant and equipment, a return on capital and a return on capital and equity to be determined by the Commission from time to time in accordance with its past practices, and (iii) facilitate the Debtor's achievement and maintenance of investment grade credit ratings. The Bankruptcy Court will retain jurisdiction to enforce the terms of the Reorganization Agreement over the life of the securities to be issued under the Amended Plan.

The Reorganization Agreement also contains the following material provisions:³

- An undertaking that all of the securities to be issued under the Amended Plan shall have terms and conditions customary for securities that are similar to the plan securities and enjoy or have Investment Grade Credit Ratings.
- The Debtor's dismissal of the Rate Recovery Litigation, with prejudice, and withdrawal of the Debtor's applications seeking various regulatory approvals to implement the PG&E Plan (a list of such applications is contained in Section 3.2 of the Reorganization Agreement).
- An express irrevocable waiver by the Commission of its sovereign immunity in connection with any action or proceeding concerning enforcement of the Reorganization Agreement, the Amended Plan or a determination of the Commission's or the Debtor's rights under the Reorganization Agreement.

The Proponents believe that the Reorganization Agreement will greatly enhance the Debtor's ability to issue investment grade securities under the Amended Plan.

³ Certain of these provisions are explicitly contained in the Amended Plan as well.

III. Change in the Treatment of Class 3 Mortgage Bondholders

The Commission's Original Plan provided that the Class 3 First and Refunding Mortgage Bonds would remain outstanding and be reinstated in accordance with section 1124(2) of the Bankruptcy Code. As a result of such treatment, the holders of Allowed Class 3 Claims were unimpaired and were not entitled to vote on the Commission's original plan because they were deemed to have accepted it (although such holders were allowed to express a preference).

The Class 3 treatment has been altered under the Amended Plan. Specifically, the Amended Plan provides that the holders of Allowed Class 3 Claims will be paid in full in Cash on the Effective Date. As a result of this change, Class 3 is now impaired and must be allowed to vote to accept or reject the Amended Plan. In addition, the Amended Plan provides for the issuance of an additional approximately \$2.699 billion of debt securities to repay the Allowed Class 3 Claims. However, such additional debt issuance (which refinances outstanding indebtedness) will not alter the total amount of the Reorganized Debtor's obligations upon its emergence from chapter 11.

The revised Class 3 treatment is intended to be consistent in all respects with the treatment accorded Class 3 claimants under the PG&E Plan, including the modifications to such treatment embodied in that certain Stipulation and Settlement Among the Plan Proponents and Unofficial Committee of Mortgage Bondholders with Respect to Proposed Objections to the Plan of Reorganization of Pacific Gas & Electric Company and PG&E Corporation, dated August 8, 2002. The Proponents believe that the change in the Class 3 treatment under the Amended Plan should likewise resolve the Unofficial Committee of Mortgage Bondholders' objection to confirmation of the Commission's Original Plan.

IV. Substitution of Preferred for Common Stock.

The Amended Plan provides for the issuance of \$1.75 billion of preferred stock in place of the \$1.75 billion common stock issuance contemplated under the Commission's Original Plan. As a result of this change, the Proponents believe that the holders of Class 14 Common Stock Equity Interests no longer are impaired and are not entitled to vote to accept or reject the Amended Plan because they are conclusively presumed to have accepted the Amended Plan. The Proponents further believe that the substitution of preferred for common stock moots certain confirmation objections to the Commission's Original Plan, including certain of the Debtor's and the Parent's objections.

V. Change in the Treatment of Class 6 ISO, PX and Generator Claims.

Pursuant to that certain Stipulation to Modify Plan Proposed by the California Public Utilities Commission Regarding the Treatment of Class 6 Claims, entered into between counsel for the Commission and counsel for the Official Committee of Participant Creditors of the California Power Exchange Corporation (the "Participants Committee"), dated August 27, 2002, the Proponents have agreed to certain changes in the treatment of Allowed ISO, PX and Generator Claims in consideration of the Participants Committee's withdrawal of its objection to the Commission's Original Plan. The changes essentially provide that each Allowed ISO, PX and Generator Claim shall earn interest, compounded quarterly, commencing on the date such payment first became due through the date of its payment. Section 5.4(b)(i) of the Amended Plan further specifies the circumstances under which a Disputed ISO, PX and Generator Claim becomes Allowed.

Conclusion and Recommendation

The Proponents believe that confirmation and implementation of the Amended Plan is preferable to the PG&E Plan. The Proponents urge you to reconsider your voting and preference decisions and to accept the Amended Plan and to prefer it over the PG&E Plan by completing and returning the enclosed ballot so that it will be received no later than 5:00 p.m. (Eastern time), on October __, 2002.

Dated: September __, 2002

CALIFORNIA PUBLIC UTILITIES
COMMISSION

By: _____
Gary M. Cohen
General Counsel

OFFICIAL COMMITTEE OF
UNSECURED CREDITORS

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

APPROVED AS TO CONTENT AND FORM:

PAUL, WEISS, RIFKIND, WHARTON & GARRISON

By: _____
Counsel for the California Public
Utilities Commission

MILBANK, TWEED, HADLEY & McCLOY LLP

By: _____
Counsel for the Official Committee
of Unsecured Creditors

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

Case No. 01-30923 DM

Chapter 11 Case

In re

PACIFIC GAS AND ELECTRIC COMPANY, a
California corporation,

Debtor.

Federal I.D. No. 94-0742640

**REVISED CLAIM HOLDER BALLOT
CLASS 5 : GENERAL UNSECURED CLAIMS NOT EVIDENCED BY SECURITIES**

As a holder of a claim that has been placed in Class 5 (a "Class 5 Claim"), you may use this revised ballot (the "Revised Ballot") under the following circumstances:

(1) If you previously submitted a ballot and voted to reject OR failed to vote on the Plan of Reorganization for PG&E filed by the California Public Utilities Commission (the "Commission"), dated May 17, 2002 (the "Original Commission Plan"), then you may use the Revised Ballot to:

- vote to accept the new "California Public Utilities Commission's and Official Committee of Unsecured Creditors' First Amended Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company [Dated August __, 2002]" (the "Commission/Committee Plan"); AND

- if you previously voted in favor of the "Plan of Reorganization under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company [Dated April 19, 2002]" (the "PG&E Plan"), you may indicate your preference as between the PG&E Plan and the Commission/Committee Plan. (The Commission/Committee Plan and the PG&E Plan are referred to collectively as the "Plans."); OR

(2) If you previously submitted a ballot and voted to accept both the Original Commission Plan and the PG&E Plan AND you indicated on your prior ballot that you preferred the PG&E Plan over the Original Commission Plan, then you may use this Revised Ballot to:

- change your prior ballot to indicate on this ballot your preference for the Commission/Committee Plan over the PG&E Plan.

Any change in the vote or preference for the Commission/Committee Plan is optional. If you previously voted to accept and to prefer the Commission's original plan you do not need to resubmit a new ballot; your prior ballot will continue to count and any subsequent ballot will not be counted. In addition, this is not a resubmission of acceptances or rejections of the PG&E Plan. Accordingly, absent Bankruptcy Court permission, you may not recast your vote for or against the PG&E Plan. Your prior ballot accepting or rejecting the PG&E Plan shall continue to count.

Submitting a properly executed Revised Ballot will supersede and replace any prior ballot.

Unimpaired claims under the PG&E Plan and/or the Commission/Committee Plan are deemed to have accepted such Plan(s) and will not be entitled to vote such claim with respect to such Plan(s). The PG&E Plan is attached as Exhibit A to the "Disclosure Statement for Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for Pacific Gas & Electric Company Proposed by Pacific Gas and Electric Company and PG&E Corporation dated

(April 19, 2002)" (the "PG&E Disclosure Statement"), which accompanied your prior Ballot. The Commission/Committee Plan is annexed as Exhibit A to the "Supplemental Disclosure For The California Public Utilities Commission's And The Official Committee Of Unsecured Creditors' First Amended Plan Of Reorganization Under Chapter 11 Of The Bankruptcy Code For Pacific Gas & Electric Company" (the "Commission/Committee Supplemental Disclosure Statement" and together with the PG&E Disclosure Statement and the disclosure statement accompanying the Original Commission Plan, collectively, the "Disclosure Statements") which accompanies this Revised Ballot. The Bankruptcy Court has approved the PG&E Disclosure Statement with respect to the PG&E Plan and the disclosure statement accompanying the Original Commission Plan, as well as the Commission/Committee Supplemental Disclosure Statement with respect to the Commission/Committee Plan. All capitalized terms used in this Revised Ballot but not otherwise defined herein shall have the meanings ascribed to them in the Plans, as applicable.

Confirmation of each of the PG&E Plan and the Commission/Committee Plan requires that the holders of two-thirds in amount and more than one-half in number of claims in each class that actually vote on such Plan, and the holders of two-thirds in amount of equity security interests in each class that actually vote on such Plan, accept such Plan; provided, however that regardless of rejection of the PG&E Plan and/or the Commission/Committee Plan by any class (or classes) of claims or interests, the Bankruptcy Court may nonetheless confirm one of the Plans if at least one impaired class of claims has accepted the Plan (determined without including any acceptance by an insider) and it finds that such Plan provides fair and equitable treatment to, and does not discriminate unfairly against, the class or classes rejecting it.

Please review the Disclosures Statements, the Plans and this Revised Ballot carefully before you elect to cast or change your vote. You may wish to seek legal advice concerning the Plans and your claim's classification and treatment in such Plans. If you hold claims or equity interests in more than one class, you will receive a Revised Ballot for each class in which you are entitled to vote. If you are an authorized signatory for more than one holder of a Class 5 Claim, you must execute a separate Revised Ballot for each holder of a Class 5 Claim.

DEADLINE

The Voting Deadline is 5:00 p.m. (Eastern Time), _____, 2002, unless extended by the Bankruptcy Court. If Inntifree M&A Incorporated (the "Voting Agent") does not receive your Revised Ballot by the Voting Deadline, your vote in such Revised Ballot will not count. Do not send your Revised Ballot to the Voting Agent by fax, e-mail or other electronic means; Revised Ballots faxed, e-mailed or sent by other electronic means will not be counted.

If the Bankruptcy Court confirms the PG&E Plan or the Commission/Committee Plan, the Confirmed Plan will be binding on all creditors and interest holders, whether or not they have voted for either such Plan.

HOW TO VOTE

1. Complete Item 1.
2. Complete Item 2 only if you previously submitted a ballot AND you either voted to reject OR failed to vote on the Original Commission Plan.
3. Complete Item 3 only if you previously voted to accept the PG&E Plan and you have indicated in Item 2 that you desire to vote to accept the Commission/Committee Plan.
4. Complete Item 4 only if you previously voted to accept both the PG&E Plan and the Original Commission Plan AND you indicated on your prior ballot that you preferred the PG&E Plan over the Original Commission Plan.
5. Review the certifications contained in Item 5.
6. Sign the Revised Ballot. Unsigned Ballots will not be counted.
7. Return the Revised Ballot in the enclosed pre-addressed, postage-paid envelope.
8. Once you have submitted your Revised Ballot to the Voting Agent, acceptance or rejection of the Commission/Committee Plan and your preference determination may be changed or withdrawn only with permission of the Bankruptcy Court. If an individual holder of a Class 5 Claim simultaneously submits

duplicate Revised Ballots with respect to such Claim that are voted (or otherwise completed) inconsistently, the Voting Agent will not count such Revised Ballots.
 9. The Revised Ballots of Class 5 Claim holders who sign, date and return their Ballots but fail to check Item 2, Item 3, or Item 4k as applicable, will be void and of no effect.
 10. Except as may be allowed by the Bankruptcy Court, an executed Revised Ballot returned to the Voting Agent may not be revoked after the Voting Deadline.
 11. This Revised Ballot does not constitute, and shall not be deemed to be, a proof of claim or equity interest or an assertion or admission of a claim or equity interest.

Item 1. Amount of Class 5 Claim Voted. I certify that as of May 21, 2002, I was a holder of a Class 5 Claim in the following amount as of April 6, 2001 (insert amount in box below) or that I am the authorized signatory of that holder. (For purposes of this Revised Ballot, do not adjust the amount for any interest that has accrued after April 6, 2001.)

\$

Item 2. If you previously submitted a ballot and voted to reject OR failed to vote on the Original Commission Plan, then you may vote to accept the Commission/Committee Plan.

- ACCEPT (vote FOR) the Commission/Committee Plan

Item 3. If you previously voted to accept the PG&E Plan AND you have indicated in Item 2 above your desire to accept the Commission/Committee Plan, then you may indicate your preference as between the PG&E Plan and the Commission/Committee Plan. (Any preference indicated below will be counted only if you previously voted in favor of the PG&E Plan and you voted to accept the Commission/Committee Plan in Item 2 above). Check only one box below.

- Prefer the Commission/Committee Plan
- Prefer the PG&E Plan

Item 4. If you previously voted to accept both the PG&E Plan and the Commission Plan AND you indicated on your prior ballot that you preferred the PG&E Plan over the Original Commission Plan, then you may change your preference below to indicate that you prefer the Commission/Committee Plan.

- Prefer the Commission/Committee Plan

August __, 2002

**TO THE GENERAL UNSECURED CREDITORS OF PACIFIC GAS AND ELECTRIC COMPANY ("PG&E")
FROM THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS APPOINTED IN THE CHAPTER 11 BANKRUPTCY CASE**

SUPPLEMENTAL REPORT AND RECOMMENDATIONS OF THE COMMITTEE REGARDING COMPETING PLANS OF REORGANIZATION

You previously received from the Official Committee of Unsecured Creditors (the "Committee")¹ appointed in PG&E's chapter 11 bankruptcy case the Report and Recommendations of the Committee as of May __, 2002 (the "Initial Committee Report") regarding the competing plans of reorganization filed in the bankruptcy case – one (the "PG&E Plan") filed by PG&E and its parent, PG&E Corp. (collectively referred to as the "PG&E Proponents"), and the other (the "Commission Plan") filed by the California Public Utilities Commission (the "Commission"). The Initial Committee Report, provided to you as part of the solicitation package containing the Bankruptcy Court-approved Disclosure Statements and ballots for voting to accept or reject and express your preference with respect to the competing plans, contained descriptive information and identified the Committee's views and reservations regarding the competing PG&E Plan and Commission Plan. The Initial Committee Report included the Committee's recommendation that general unsecured creditors vote in favor of both the PG&E Plan and the Commission Plan, but indicated that the

¹ The Committee consists of eleven entities, holding or representing the interests of unsecured claims of various types, that were selected by the Office of the United States Trustee as being representative of the general unsecured creditor body of PG&E. The Committee is designed to act as the voice of the general unsecured creditor body in the Case. Accordingly, although this report is being included in the solicitation materials being distributed to a broader group of creditors and equity holders in the Case, the report is addressed only to PG&E's general unsecured creditors. Consequently, this report is not addressed, nor intended as a recommendation, to any creditors other than general unsecured creditors in the Case.

LA11#624013V4

Item 5. Certification. By returning this Revised Ballot, the holder of the amount of the Class 5 Claim identified in Item 1 above:

- (a) certifies that (i) it has full power and authority to vote to accept the Committee/Commission Plan with respect to the Class 5 Claim identified in Item 1, and (ii) has received copies of the Disclosure Statements and the Plans (including the exhibits thereto); and
- (b) agrees to provide proof of its authority to vote this Revised Ballot if required or requested by the Voting Agent, the PG&E Proponents, the Commission, the Committee, or the Bankruptcy Court.

Name of Holder: _____ (Print or Type)

Social Security or Federal Tax I.D. No.: _____ (Optional)

Signature: _____

Name of Signatory: _____ (if Other than Holder)

Title (if holder is not an individual): _____ (If Appropriate)

Street Address: _____

City, State, Zip Code: _____

Telephone Number: (____) _____

Date Completed: _____

QUESTIONS
If you have any questions regarding this Revised Ballot or the voting procedures, if you believe that you have received this Revised Ballot in error (for example, you believe you should have received a Revised Ballot for a different class of claims), or if you do not have a copy of either of the Disclosure Statements or the Plans, please contact the Voting Agent – Inmisfree M&A Incorporated, 501 Madison Avenue, 20th Floor, New York, NY 10022 (telephone: 877-750-9501).

Committee was not at that time in a position to recommend a preference for one plan over the other.

The Commission Plan now has been modified and a new First Amended Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company dated August ____, 2002 (the "Commission/Committee Plan"), has been filed by the Commission and the Committee, as co-proponents. This Supplemental Report and Recommendations of the Committee dated August ____, 2002 (the "Supplemental Committee Report") is being provided to you in conjunction with the solicitation package for the Commission/Committee Plan, including supplemental disclosure materials and a new ballot for voting to accept or reject and express your preference for the Commission/Committee Plan. **The Committee hereby recommends that you vote to accept the Commission/Committee Plan and, if you previously voted to accept the PG&E Plan, to express your preference for confirmation of the Commission/Committee Plan.**

Introduction

As noted in the Initial Committee Report, consistent with its powers and duties in the bankruptcy case under Title 11 of the United States Code (the "Bankruptcy Code"), the Committee, assisted by its legal counsel, Milbank, Tweed, Hadley & McCloy LLP, its financial adviser, PricewaterhouseCoopers LLP, and its investment banker, Saybrook Capital, LLC, has focused its efforts since the outset of the case on the prompt formulation of a plan or plans of reorganization that would pay creditors in full, with interest, and without undue delay. Also as noted in the Initial Committee Report, where competing plans are proposed and more than one plan is found to meet the plan approval requirements of the Bankruptcy Code, the Bankruptcy Court is required to consider the preferences of creditors and equity security holders in determining which plan to confirm. The ballot delivered to you as part of the original solicitation process thus provided you with an opportunity to indicate your preference for either the PG&E Plan or the Commission Plan, if you voted to accept both plans. While the Committee

recommended in the Initial Committee Report that general unsecured creditors vote in favor of both plans, the Committee could not recommend a preference for either plan because of reservations and risks with respect to each of the plans identified in the Initial Committee Report.²

The Committee also noted in the Initial Committee Report that it would continue to work actively to address the concerns it had expressed with respect to the PG&E Plan and the Commission Plan and work toward a consensual resolution of the ongoing disputes between the State's utility regulator, the Commission, and the PG&E Proponents. In furtherance of that commitment, the Committee has sought to reconcile the competing plans by negotiating a settlement among the Commission and the PG&E Proponents or, absent that, by negotiating modifications to the existing plans to address the concerns identified in the Initial Committee Report. This process has led to an agreement by the Commission, approved unanimously by vote of its Commissioners on August 22, 2002, to substantially modify and amend the original Commission Plan in a manner that addresses the principal reservations and risks identified with respect to the Commission Plan in the Initial Committee Report. These modifications are believed by the Committee to be of such significance that the Committee has become a co-

proponent with the Commission of the Commission/Committee Plan.³ Pursuant to an

² In recognition of this fact, the Committee sought, and the Bankruptcy Court approved by order entered July 9, 2002, the termination of PG&E's and the Commission's exclusive right to file and seek confirmation of their plans of reorganization, granting the Committee the right to file its own alternative plan.

³ The PG&E Plan and the Commission/Committee Plan are lengthy and complex documents that are attached to their respective Bankruptcy Court-approved disclosure documents and described in great detail therein. This Supplemental Committee Report contains only a brief, summary description of those aspects of the Commission/Committee Plan that are particularly relevant to the general unsecured creditors of PG&E and this resolicitation of your vote. The views and recommendations of the Committee with respect to the PG&E Plan, as contained in the Initial Committee Report, remain unchanged. The Supplemental Committee Report is not intended to be a comprehensive summary of either plan. Rather, its purpose is to express the Committee's views concerning the newly-filed Commission/Committee Plan and its recommendation that general unsecured creditors express a preference for the Commission/Committee Plan over the PG&E Plan. The Committee strongly urges all creditors and other interested parties to review each of the plans and their respective disclosure documents in detail, and to consult with legal counsel regarding those documents when assessing and comparing the plans and their relative merits.

Order of the Bankruptcy Court entered August ____, 2002, the Commission/Committee Plan and supplemental disclosure approved in connection therewith are being distributed to you, together with a new form of ballot, for the purpose of permitting you to vote to accept or reject the new Commission/Committee Plan and, if you previously have voted to accept the PG&E Plan, to express your preference for either the Commission/Committee Plan or the PG&E Plan.

This Supplemental Committee Report is being distributed to you in connection with these new solicitation materials in order to express the Committee's views and recommendations with respect to the Commission/Committee Plan. The Committee affirmatively recommends that general unsecured creditors vote in favor of the Commission/Committee Plan and that those general unsecured creditors who also voted in favor of the PG&E Plan indicate their preference for confirmation of the Commission/Committee Plan.

The Commission/Committee Plan

The Committee noted in the Initial Committee Report that both the PG&E Plan and the original Commission Plan had the potential to pay creditors in full with interest and provided a possible basis, in the abstract, to enable PG&E to emerge from bankruptcy with an investment grade credit rating. Thus, while the Committee had analyzed various alternative restructuring options, including liquidation of PG&E, it had concluded that either plan, if confirmed, would be superior to other available options. The Committee could not express a preference for one plan over the other because each plan contained certain risks and uncertainties that were of concern to the Committee.

The Committee noted that the PG&E Plan faced significant legal and regulatory hurdles, including intense objections voiced by the State of California and the Commission (which acts as the State's utility regulator) to the PG&E Plan's proposed transfer of PG&E's generation and electric and gas transmission business units and assets into new entities that would be regulated by the Federal Energy Regulatory

Commission (the "FERC") rather than the Commission. These transfers ordinarily would require approval from the Commission and may be inconsistent with existing State law. Additionally, they require regulatory approval by the FERC, the Nuclear Regulatory Commission, the Securities and Exchange Commission, and certain municipal agencies. That regulatory approval process is presently underway, except with respect to the Commission.

With respect to the Commission approval process and State laws that may impede or preclude such transfers or otherwise impair PG&E's ability to effectuate its proposed form of reorganization, the PG&E Plan is dependent upon a finding by the Bankruptcy Court at the hearing on confirmation (approval) of the PG&E Plan that applicable provisions of the Bankruptcy Code preempt the Commission approval process and what otherwise may be applicable non-federal laws that would preclude the transfers.⁴ The Commission and the State of California, among others, have objected strenuously to confirmation of the PG&E Plan and to the various pending federal regulatory administrative approval proceedings initiated by PG&E, arguing that the disaggregation of PG&E without Commission approval and in a manner inconsistent with otherwise applicable State law is illegal and would be harmful to the public interest. In particular, the Commission and the State argue that the PG&E Proponents cannot meet the tests for implied preemption that would require them to show that the laws to be preempted primarily serve the State's economic interests rather than its mandate to protect public health, safety and welfare, and that there is no feasible alternative to the PG&E Plan that does not rely on federal preemption of inconsistent State laws. The Commission and the State also have reserved their respective rights to argue that,

⁴ The Bankruptcy Court ruled in the context of an earlier version of the PG&E Plan that the Bankruptcy Code does not contain provisions that would expressly preempt the Commission approval process and inconsistent State laws, but rather that the Bankruptcy Code may provide the Bankruptcy Court with authority, subject to applicable factual and legal findings, to approve the PG&E Proponents' disaggregation plan without compliance with that approval process and inconsistent State laws pursuant to the federal doctrine of implied preemption. This ruling is the subject of an appeal by the PG&E Proponents that has been briefed, argued and submitted to the United States District Court for the Northern District of California.

based on the 11th Amendment of the United States Constitution and principles of sovereign immunity, the PG&E Plan is an improper attempt to seek relief in federal court against agencies of the State. The Commission and the State have indicated that they will aggressively pursue appeals from any adverse rulings. **The Committee believes such an appeal process will significantly delay payment of creditors and implementation of the PG&E Plan, if it can be confirmed.**

Conversely, while the Committee believes that that the Commission Plan, which did not rely upon the transfer of existing business units and assets, and otherwise left the existing utility company under the present regulatory regime, would be capable of more rapid consummation, the Committee had serious concerns with respect to its financial feasibility. The Committee stated in the Initial Committee Report that it was left with serious concerns, after due consideration, whether: "(i) the [Commission] will, in the very near future, implement stable and predictable rate making policies that are necessary to lay the foundation for capital market support for the [Commission] Plan, assure that such policies are supported by State government, and take the actions necessary to provide a basis upon which to finance the Plan; (ii) the credit rating agencies will overcome their prior publicity stated negative views concerning the [Commission]; and (iii) the [Commission] Plan ultimately can be financed." The Initial Committee Report noted additionally that the PG&E Proponents objected to the Commission Plan based on the contention that the proposed issuance under the Commission Plan of new common stock of PG&E, a solvent entity, would unlawfully impair the rights of its shareholder, PG&E Corp., and that certain proposed releases of PG&E's rights against the Commission and the State would constitute a confiscation of PG&E's historic regulated return on invested capital that would result in an unconstitutional "taking" of property in contravention of State law, Federal law, and the United States and California Constitutions. The Committee also mentioned that the Commission Plan was the subject of litigation (subsequently resolved in the Commission's favor) challenging the authority of the Commission to propose and

implement the Commission Plan.

The modifications to the original Commission Plan negotiated by the Committee and incorporated into the Commission/Committee Plan address the concerns expressed by the Committee in the Initial Committee Report in the following manner:

1. The original Commission Plan provided that approximately \$1.75 billion of cash proceeds would be raised to fund distributions to creditors from the sale of new common stock in PG&E. The PG&E Proponents argued that, because PG&E is solvent, such a sale would improperly dilute PG&E Corp.'s 100% ownership interest in its subsidiary and impair the value to PG&E Corp. of its retained common stock. While the Committee did not necessarily agree with the position of the PG&E Proponents on these issues, the Committee believed that other less objectionable avenues were available to raise the necessary cash and it thus convinced the Commission to attempt to raise the \$1.75 billion through the sale of a new preferred stock, thereby allowing PG&E Corp. to retain its 100% common equity ownership of PG&E.
2. While the Commission believed that confirmation of the original Commission Plan would have returned PG&E to investment grade status and supported an investment grade rating for the new PG&E notes that were proposed to be issued to raise \$3.86 billion of cash proceeds to fund distributions to PG&E's creditors, the Committee was skeptical that such a result could be obtained without adoption by the Commission and approval by the Bankruptcy Court of an agreement authorizing reorganized PG&E to recover in retail electric rates an amount sufficient to pay the interest and dividends payable on, and to provide the funding of required reserves for PG&E to meet its obligations in respect of, scheduled amortization and redemption of the new notes and preferred stock in accordance with their respective terms, and to recover other utility costs in accordance with historic practice, including a return on capital to be

determined by the Commission from time-to-time in accordance with its past practices.

Pursuant to the Commission/Committee Plan, the Commission now has agreed to enter into such an agreement with reorganized PG&E.⁵ This agreement paves the way for PG&E to return to investment grade status and support an investment grade rating for the new securities to be issued by PG&E under the Commission/Committee Plan by ensuring that there will be sufficient cash flows in the future to satisfy obligations arising under those securities. In essence, this structure provides for the recoupment of past under-collections (that are the subject of the filed rate litigation that will be dismissed pursuant to the provisions of the Commission/Committee Plan) through the integration of the debt service, both principal and interest, in the rate structure for PG&E during the life of the securities issued pursuant to the Commission/Committee Plan. This structure additionally ensures that PG&E will have sufficient revenue to provide a return on capital that are consistent with historic public utility returns.

3. The concerns expressed by the Committee in the Initial Committee Report and by the PG&E Proponents with respect to the scope of the commitment of the Commission to waive any claim of sovereign immunity and to bind the Commission in the future to any agreements that may be entered into with respect to rates (and in the case of the Commission/Committee Plan, specifically with respect to the Reorganization Agreement), have been fully resolved. The Commission/Committee Plan provides for a clear and unambiguous waiver of sovereign immunity by the Commission and the Commission's submission to the retained jurisdiction of the Bankruptcy Court to approve and enforce the provisions of the Commission/Committee Plan and the agreements entered into in connection therewith (specifically including the

⁵ These commitments are reflected in the form of "Reorganization Agreement" that is attached as Exhibit " " to the Commission/Committee Plan.

Reorganization Agreement governing, among other things, rates) for the life of the securities issued under the Commission/Committee Plan.

The Committee believes that these fundamental changes to the original Commission Plan work together to address the reservations and concerns of the Committee with respect to the financial feasibility and fairness of the original Commission Plan, and that they should resolve the legal uncertainties raised by the PG&E Plan Proponents that the original Commission Plan impaired the equity interests of PG&E Corp. and constituted an unlawful confiscation or taking of property and historic return on invested capital. While the Commission/Committee Plan has not yet received financing commitments for the debt and preferred stock to be sold, the Committee expects to file an application to employ UBS Warburg, the same investment banking firm that has been working for several weeks with the Commission, to assist the Committee's advisors and to continue to work with the Commission to craft securities that will effectuate the financing contemplated in the Commission/Committee Plan.

Finally, the Committee notes that obstacles to confirmation and consummation of a Commission plan that existed by virtue of the legal challenge that was pending before the California Supreme Court at the time of the Initial Committee Report with respect to the authority of the Commission to propose or implement the original Commission Plan now have been removed with the rejection of that challenge by the Supreme Court.

Recommendations

The Committee strongly recommends that all general unsecured creditors vote on the ballot accompanying this Supplemental Committee Report to accept the Commission/Committee Plan. The Committee also recommends that creditors who voted in the original solicitation to accept the PG&E Plan and who vote in favor of the Commission/Committee Plan vote on this ballot to express their preference for confirmation of the Commission/Committee Plan in the event the Bankruptcy Court finds that both the PG&E Plan and the Commission/Committee Plan meet the legal requirements of the Bankruptcy Code for approval and confirmation.