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2 **THIS PROPOSED DISCLOSURE STATEMENT IS NOT A SOLICITATION OF**
3 **ACCEPTANCES OR REJECTIONS OF THE COMMISSION'S PLAN.**
4 **ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A**
5 **DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY**
6 **COURT. THIS PROPOSED DISCLOSURE STATEMENT IS BEING SUBMITTED**
7 **FOR APPROVAL BUT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY**
8 **COURT.**

9 UNITED STATES BANKRUPTCY COURT

10 NORTHERN DISTRICT OF CALIFORNIA

11 SAN FRANCISCO DIVISION

12 In re

13 PACIFIC GAS AND ELECTRIC COMPANY,
14 a California corporation,

15 Debtor.

16 Federal I.D. No. 94-0742640

Case No. 01 30923 DM

Chapter 11 Case

[No Hearing Requested]

17 **DISCLOSURE STATEMENT FOR THE CALIFORNIA PUBLIC**
18 **UTILITIES COMMISSION'S PLAN OF REORGANIZATION**
19 **UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**
20 **FOR PACIFIC GAS AND ELECTRIC COMPANY**

[Dated April 15, 2002]

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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

	Page
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.....	7
D. Voting Procedures	9
1. General.	9
2. Beneficial Owners of Bonds, Notes, Debentures or Shares of Stock.....	10
3. Nominees of Beneficial Owners of Bonds, Notes, Debentures or Shares of Stock.....	11
4. Securities Clearing Agency.....	11
E. Confirmation Hearing	11
F. Miscellaneous.....	12
G. The Competing Plan Process	14
II. OVERVIEW OF THE CLAIMS AND EQUITY INTERESTS.....	14
A. Summary Claims Table.....	14
B. Claims Objection Process.....	31
III. DESCRIPTION AND HISTORY OF THE DEBTOR’S BUSINESS.....	32
A. Overview	32
B. Operations	32
1. Electric Utility Operations.	32
2. Gas Utility Operations.....	33
C. Regulation	33
D. Unions/Workers’ Compensation.....	35
1. Unions.	35
2. Workers’ Compensation Obligations.....	35
E. Litigation.....	35

1	1.	Rate Recovery Litigation.....	35
2	2.	Compressor Station Chromium Litigation.....	37
3	3.	Claims Against the State.....	40
4	IV.	EVENTS PRECEDING THE COMMENCEMENT OF THE CHAPTER 11 CASE.....	40
5	A.	Electric Restructuring Background.....	40
6	B.	Rise in Wholesale Electricity Prices in 2000.....	43
7	C.	Legislative and Commission Action in 2001 Prior to the Chapter 11 Case.....	44
8	V.	THE REORGANIZATION CASE.....	46
9	A.	Commencement of the Chapter 11 Case.....	46
10	B.	Administration of the Chapter 11 Case.....	46
11	1.	First Day Orders.....	46
12	2.	Second Day Orders.....	46
13	3.	Third Day Orders.....	46
14	4.	Creditors' Committee.....	47
15	5.	Public Purpose Programs.....	47
16	6.	Assumption of Hydroelectric Power Purchases.....	48
17	7.	Pre-Petition Property Taxes.....	48
18	8.	Request for Preliminary Injunction Against the ISO.....	48
19	9.	Denial of Ratepayers' Committee.....	49
20	10.	Authorization of Employee Related Matters.....	49
21	11.	The Accounting True-Up.....	50
22	12.	PG&E's Extension of the Exclusivity Period.....	51
23	13.	Further Extension of Exclusivity Denied.....	51
24	14.	Omnibus Motions.....	52
25	15.	Extension of Time for Assuming or Rejecting Real Property Leases.....	52
26	16.	QF Agreements.....	52
27	17.	PG&E's Support Agreement with the Committee.....	54
28			

1	18.	Sempra Settlement Agreement.....	56
2	19.	Claims Management Motions.	57
3	20.	Stipulation with Letter of Credit Issuing Banks and Banks.....	58
4	21.	Motion to Assume Main Line Extension Contracts.....	59
5	22.	Memorandum Decision Regarding Preemption and Sovereign Immunity.....	59
6	23.	Settlement and Support Agreement with Senior Debtholders.	61
7	24.	Motion Seeking Authorization to Pay Certain Claims.....	62
8	25.	Statement of PG&E Proponents’ Intentions.....	62
9	26.	The Commission’s URG Decision.....	64
10	VI.	THE PLAN OF REORGANIZATION.....	65
11	A.	Overview.....	65
12	B.	Classification And Treatment of Claims and Equity Interests.....	66
13	1.	Administrative Expense Claims.....	68
14	2.	Professional Compensation and Reimbursement Claims.....	68
15	3.	Priority Tax Claims.....	69
16	4.	Class 1 - Other Priority Claims.....	70
17	5.	Class 2 - Other Secured Claims.....	70
18	6.	Class 3 - Secured Claims Relating to First and Refunding Mortgage Bonds.....	71
19	7.	Class 4a - Mortgage Backed PC Bond Claims.....	72
20	8.	Class 4b - MBIA Insured PC Bond Claims.....	72
21	9.	Class 4c - MBIA Claims.....	73
22	10.	Class 4d - Letter of Credit Backed PC Bond Claims.....	73
23	11.	Class 4e - Letter of Credit Bank Claims.....	74
24	12.	Class 4f - Prior Bond Claims.....	80
25	13.	Class 4g - Treasury PC Bond Claims.....	81
26	14.	Class 5 - General Unsecured Claims.....	82
27	15.	Class 6 - ISO, PX and Generator Claims.....	82
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

16.	Class 7 - ESP Claims.....	83
17.	Class 8 – Environmental, Fire Suppression, Tort and FERC License Claims.....	84
18.	Class 9 - Chromium Litigation Claims.....	87
19.	Class 10 - Convenience Claims.....	87
20.	Class 11 - QUIDS Claims.....	88
21.	Class 12 - Workers’ Compensation Claims.....	88
22.	Class 13 - Preferred Stock Equity Interests.....	88
23.	Class 14 - Common Stock Equity Interests.....	89
C.	Plan Implementation	89
1.	Issuance of Securities Under the Plan.....	89
2.	Working Capital Facility.....	91
3.	Settlement of Litigation.....	91
4.	New Tax Sharing Agreement.....	92
5.	Regulation.....	93
D.	Method of Distribution Under the Plan.....	93
E.	Timing of Distributions Under the Plan.....	94
F.	Treatment of Executory Contracts and Unexpired Leases.....	96
G.	Provisions for Treatment of Disputed Claims.....	99
H.	Objections to and Resolution of Administrative Expense Claims and Claims.....	101
I.	Payment of Trustee’s, Issuer’s and Certain Banks’ Fees.....	102
J.	Conditions Precedent to Confirmation of the Commission’s Plan	102
K.	Conditions Precedent to Effectiveness of the Commission’s Plan	103
L.	Implementation and Effect of Confirmation of the Commission’s Plan.....	104
M.	Discharge and Injunction	105
N.	Voting.....	106
1.	Voting of Claims.....	106
2.	Elimination of Vacant Classes.....	107

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

3.	Nonconsensual Confirmation.....	107
O.	Summary Of Other Provisions Of The Plan.....	107
1.	Amendment or Modification of the Plan.....	108
2.	Cancellation of Existing Securities and Agreements.....	108
3.	Revocation or Withdrawal of the Commission’s Plan.....	108
4.	Termination of the Committee.....	109
5.	Effectuating Documents and Further Transactions.....	109
6.	Release of Certain Parties.....	109
7.	Exculpation.....	110
8.	Corporate Governance; Articles of Incorporation and Bylaws.....	111
9.	Commission’s Plan Supplement.....	112
10.	Retention of Jurisdiction.....	112
11.	Exemption of Transfer Taxes.....	113
12.	Fees and Expenses.....	114
13.	Payment of Statutory Fees.....	114
14.	Severability.....	114
15.	Binding Effect.....	115
16.	Governing Law.....	115
17.	Withholding and Reporting Requirements.....	115
18.	Allocation of Plan Distributions.....	115
19.	Minimum Distributions.....	115
20.	Subrogation Rights.....	115
21.	Corporate Action.....	116
22.	Notices.....	116
VII.	CONFIRMATION AND CONSUMMATION PROCEDURE.....	118
A.	Solicitation Of Votes.....	118
B.	The Confirmation Hearing.....	119
C.	Confirmation.....	120

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.	Acceptance.....	120
2.	Unfair Discrimination and Fair and Equitable Tests.....	121
3.	Feasibility and Projections.....	122
4.	Best Interests Test.....	123
D.	Consummation.....	125
VIII.	FINANCIAL INFORMATION.....	125
IX.	SECURITIES LAWS MATTERS.....	126
X.	CERTAIN RISK FACTORS TO BE CONSIDERED.....	126
A.	Certain Bankruptcy Law Considerations.....	127
1.	Risk of Non-Confirmation of the Plan.....	127
2.	Nonconsensual Confirmation.....	127
3.	Risk of Non-Occurrence of the Effective Date.....	127
B.	Risk Factors Related To Sale Of Securities Under The Plan.....	128
1.	Creditworthiness Risks.....	128
2.	New Secured Credit Facility.....	128
3.	Reorganized Debtor New Money Notes.....	129
4.	Sale of Equity.....	129
5.	Interest Rate Risk.....	129
C.	Tax Risks.....	129
XI.	DESCRIPTION OF CERTAIN CLAIMS.....	130
A.	Pollution Control Bonds.....	130
1.	General.....	130
2.	Mortgage Backed PC Bonds.....	133
3.	Letter of Credit Backed PC Bonds.....	134
4.	MBIA Insured PC Bonds.....	136
5.	Prior Bonds.....	137
6.	Treasury PC Bonds.....	138

1	XII.	CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE COMMISSION'S PLAN	138
2		A. Introduction	138
3		B. Consequences to the Debtor.....	140
4		1. Distributions of Cash in Satisfaction of Claims.....	140
5		2. Issuance of Common Stock and Reorganized Debtor New Money Notes.....	140
6		3. Treatment of Escrow(s) with Respect to Disputed Chromium Litigation Claims.....	141
7			
8		C. Consequences to Holders of Impaired Claims	142
9		1. Distributions of Cash in Satisfaction of Claims.....	142
10		2. Distributions in Discharge of Accrued Interest.....	143
11		D. Consequences to Holders of Equity Interests.....	143
12		1. Preferred Stock Equity Interests.....	143
13		2. Common Stock Equity Interests.....	144
14		E. Information Reporting And Withholding.....	145
15	XIII.	ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE COMMISSION'S PLAN	146
16		A. Liquidation Under Chapter 7.....	146
17		B. Alternative Plan Of Reorganization	147
18		C. Liquidation Under Chapter 11.....	147
19			
20	XIV.	CONCLUSION AND RECOMMENDATION	148

21
22
23
24
25
26
27
28

1 **I. INTRODUCTION¹**

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, the Commission filed its Plan of Reorganization Under Chapter 11 of the Bankruptcy
11 Code for PG&E (as amended, modified or supplemented, the "Commission Plan" or the "Plan"),
12 which sets forth the manner in which Claims against and Equity Interests in PG&E would be
13 treated under the Commission's Plan. A copy of the Commission's Plan is attached hereto as
14 Exhibit A. This Disclosure Statement (as amended, modified or supplemented, the "Disclosure
15 Statement") describes certain aspects of the Commission's Plan, PG&E's business and related
16 matters.

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

22 Specifically, the Commission's Plan contemplates: (i) payment in full in Cash of
23 Allowed Administrative Expense Claims, Professional Compensation and Reimbursement
24 Claims, Priority Tax Claims, Other Priority Claims, QUIDS Claims, General Unsecured Claims,

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

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

19 In addition to the Commission's Disclosure Statement and Plan, PG&E and its Parent
20 (the "PG&E Proponents") have filed a Second Amended Plan of Reorganization (as amended,
21 supplemented and modified, the "PG&E Plan") dated _____ __, 2002 and a Second Amended
22 Disclosure Statement in respect of the PG&E Plan (as amended, supplemented and modified, the
23 "PG&E Disclosure Statement") dated _____ __, 2002. Holders of Claims against and Equity
24 Interests in PG&E have a choice of whether to vote in favor of the Commission Plan and/or the
25 PG&E Plan (together, the "Competing Plans") and to express a preference for one if voting in
26 favor of both Competing Plans. For the reasons discussed herein, **THE COMMISSION**
27 **URGES ALL CREDITORS AND EQUITY HOLDERS TO VOTE TO ACCEPT THE**
28 **COMMISSION'S PLAN (AND TO REJECT PG&E'S PLAN) BECAUSE THE**

1 **COMMISSION BELIEVES THAT ITS PLAN PROVIDES MAXIMUM VALUE AND**
2 **MORE CERTAINTY FOR CREDITORS AND EQUITY HOLDERS.** *Creditors and Equity*
3 *Holders are urged to read both the Commission's Disclosure Statement and the PG&E*
4 *Disclosure Statement in their entirety prior to voting on the Commission's Plan.*

5 Attached as Exhibits to the Commission's Disclosure Statement are copies of the
6 following:

- 7 • The Commission's Plan (Exhibit A), including the exhibits to the Plan as follows:
 - 8 • Interest rates payable on certain Allowed Claims (Exhibit 1);
 - 9 • Schedule of Letter of Credit Issuing Banks (Exhibit 2);
 - 10 • Terms and amount of debt securities to be issued under the Plan (Exhibit 3);
- 11 • An Order of the Court dated ____ ____, 2002 (the "Disclosure Statement Order"),
12 among other things, approving the Commission's Disclosure Statement and
13 establishing certain procedures with respect to the solicitation and tabulation of votes
14 to accept or reject the Commission's Plan and the competing plan process
15 (Exhibit B);
- 16 • Projected Financial Information (Exhibit C);
- 17 • Schedule of PG&E's Currently Outstanding Securities (Exhibit D).

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

- 21 • Annual Report on Form 10-K of the Parent and the Debtor for the year ended
22 December 31, 2001; and
- 23 • Various Current Reports on Form 8-K.

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

27 **THE FINANCIAL INFORMATION INCLUDED IN THIS DISCLOSURE**
28 **STATEMENT HAS BEEN PROVIDED BY THE PG&E PROPONENTS OR IS**
DERIVED FROM PUBLIC FILINGS AND CERTAIN THIRD PARTY SOURCES. THE
COMMISSION MAKES NO REPRESENTATION OR WARRANTY REGARDING THE

1 **ACCURACY OF SUCH INFORMATION AND RESERVES THE RIGHT TO REVISE**
2 **SUCH FINANCIAL INFORMATION AS A RESULT OF THE COMMISSION'S**
3 **FURTHER REVIEW.**

4 A joint Ballot for acceptance or rejection of the Commission's Plan and/or the PG&E
5 Plan is enclosed with the Commission's Disclosure Statement submitted to holders of Claims
6 and Equity Interests that are entitled to vote to accept or reject the Competing Plans.

7 On _____, 2002, after notice and a hearing, the Court signed the Disclosure
8 Statement Order approving the Commission's Disclosure Statement as containing adequate
9 information of a kind and in sufficient detail to enable hypothetical, reasonable investors typical
10 of the Debtor's creditors to make an informed judgment about whether to accept or reject the
11 Commission's Plan. APPROVAL OF THE COMMISSION'S DISCLOSURE STATEMENT
12 DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE COURT AS TO
13 THE FAIRNESS OR MERITS OF THE COMMISSION'S PLAN.

14 The Disclosure Statement Order sets forth in detail the deadlines, procedures and
15 instructions for voting to accept or reject the Commission's Plan and for filing objections to
16 confirmation of the Commission's Plan, the record date for voting purposes (the "Voting Record
17 Date"), the applicable standards for tabulating Ballots, and the date of the hearing to consider
18 confirmation of the Commission's Plan. In addition, detailed voting instructions accompany
19 each Ballot. Before voting on the Commission's Plan, each holder of a Claim or Equity Interest
20 entitled to vote on the Commission's Plan should read in their entirety the Commission's
21 Disclosure Statement (including the documents incorporated herein by reference), the
22 Commission's Plan, the Disclosure Statement Order, PG&E Disclosure Statement and the
23 instructions accompanying the Ballots and the other exhibits attached to this Disclosure
24 Statement. These documents contain, among other things, important information concerning the
25 classification of Claims and Equity Interests for voting purposes and the tabulation of votes. No
26 solicitation of votes on the Commission's Plan may be made except pursuant to this Disclosure
27 Statement and section 1125 of the Bankruptcy Code. In considering how to vote on the
28 Commission's Plan, a holder of a Claim or Equity Interest should not rely on any information

1 relating to the Debtor and its business other than that contained, or incorporated by reference, in
2 this Disclosure Statement, the Plan, or as otherwise approved by the Bankruptcy Court.

3 **CAPITALIZED TERMS USED IN THIS DISCLOSURE STATEMENT BUT NOT**
4 **OTHERWISE DEFINED HEREIN SHALL HAVE THE MEANINGS ASCRIBED TO**
5 **SUCH TERMS IN THE COMMISSION’S PLAN. AN INDEX OF DEFINED TERMS IS**
6 **ATTACHED TO THIS DISCLOSURE STATEMENT IMMEDIATELY FOLLOWING**
7 **THE SIGNATURE PAGE.**

8 **A. Chapter 11**

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

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

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

26 Certain holders of allowed claims against and equity interests in a debtor are permitted to
27 vote to accept or reject the plan. Prior to soliciting acceptances of the proposed plan, however,
28 section 1125 of the Bankruptcy Code requires approval by the bankruptcy court of a disclosure

1 statement containing adequate information of a kind, and in sufficient detail, to enable a
2 hypothetical reasonable investor to make an informed judgment regarding the plan.

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

4 The Commission has developed its Plan to restore the Debtor's financial viability and to
5 provide for the payment in full of all Allowed Claims at the earliest possible date. See Section
6 VI.B of this Disclosure Statement for detailed information regarding the payment of Allowed
7 Claims. In short, the Commission's Plan seeks to provide the Debtor with the means to repay in
8 full in Cash (with interest) the short term indebtedness incurred by the Debtor during California's
9 energy crisis. Much of the Debtor's long term indebtedness would remain outstanding and be
10 satisfied through the reinstatement of such indebtedness.

11 The Commission's Plan provides the Debtor with a purely economic solution to its
12 financial difficulties. Unlike the PG&E Plan, the Commission's Plan is not dependent upon the
13 disaggregation of the Debtor's business and operations and the wholesale dislocation of state and
14 local laws and regulations through time-consuming and expensive litigation. In fact, the Plan
15 does not provide for any changes in the Debtor's regulatory environment; none are necessary to
16 the Debtor's reorganization. Upon its emergence from chapter 11, the Debtor will continue to be
17 regulated by the Commission under traditional cost-of-service ratemaking.

18 The Commission's Plan relies, in large part, upon the "headroom" in rates enjoyed by
19 PG&E since at least June 2001. This "headroom," which represents the positive difference
20 between the Debtor's retail electric rates and operating costs, including its wholesale power
21 procurement costs, has allowed the Debtor to stockpile massive amounts of Cash which may
22 now be used to repay creditors. In addition, to satisfy the funding gap between the Allowed
23 Claims to be paid on the Effective Date pursuant to the Plan and the Debtor's projected available
24 Cash, the Commission's Plan provides for the Debtor's issuance and sale, through one or more
25 public or private offerings, new debt and equity securities, which shall be comprised of
26 Reorganized Debtor New Money Notes and Common Stock in the Reorganized Debtor. The
27 Commission believes that the sale of these securities, when combined with the Debtor's available
28

1 Cash upon its emergence from bankruptcy, will provide the Debtor with the means to repay its
2 creditors in full and emerge as a viable entity.

3 The purpose of the Plan is to enable the Debtor to pay all Allowed Claims in full and
4 emerge from chapter 11 with a strong and sustainable business so that the Debtor's customers
5 can once again be assured of a safe and reliable supply of electricity and gas. It is expected that
6 the Plan will also restore the Debtor to an investment grade credit, thus providing the necessary
7 assurance that the Reorganized Debtor will be able to service the debt issued in connection with
8 or reinstated under the Plan.

9 The Commission believes that the Plan is workable, fair and in the public interest. The
10 Plan enables the Reorganized Debtor to regain financial viability and to resume full procurement
11 of power for its retail customers. In doing so, the Plan calls for contributions from each of the
12 Reorganized Debtor's significant constituencies: the Reorganized Debtor itself, its ratepayers,
13 and its Parent, which is required under the Plan to contribute to the solution through a dilution in
14 its ownership interest in the Reorganized Debtor. In addition, the Plan requires the Reorganized
15 Debtor to remain subject to Commission and State regulation.

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

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

20 The Bankruptcy Code provides that only holders of allowed claims or equity interests in
21 classes of claims or equity interests that are impaired and are not deemed to have rejected a
22 proposed chapter 11 plan are entitled to vote to accept or reject such plan. Classes of claims or
23 equity interests in which the holders are unimpaired under a chapter 11 plan are deemed to have
24 accepted the plan and are not entitled to vote to accept or reject the plan. Classes of claims or
25 equity interests in which the holders will receive no recovery under a chapter 11 plan are
26 impaired, but are deemed to have rejected the plan and are also not entitled to vote to accept or
27 reject the plan. See Section VI.B of this Disclosure Statement for a detailed description of the
28 treatment of Claims and Equity Interests under the Commission's Plan.

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

6 The following classes of Claims and Equity Interests are unimpaired and, therefore, are
7 conclusively presumed to have accepted the Plan: Class 1 – Other Priority Claims, Class 2 –
8 Other Secured Claims, Class 3 – Secured Claims Relating to First and Refunding Mortgage
9 Bonds, Class 4a – Mortgage Backed PC Bond Claims, Class 4b – MBIA Insured PC Bond
10 Claims, Class 4d – Letter of Credit Backed PC Bond Claims, Class 4f – Prior Bond Claims,
11 Class 4g – Treasury PC Bond Claims, Class 8 – Environmental, Fire Suppression, Tort and
12 FERC License Claims, Class 9 – Chromium Litigation Claims, Class 10 – Convenience Claims,
13 Class 12 – Workers’ Compensation Claims and Class 13 – Preferred Stock Equity Interests.²

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

22 If one or more classes of Claims or Equity Interests entitled to vote on the Commission’s
23 Plan votes to reject the Plan, the Commission reserves the right to amend the Commission’s Plan

24 _____
25 ² 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 or request confirmation of the Commission's Plan pursuant to section 1129(b) of the Bankruptcy
2 Code. If at least one class of Claims that is impaired under the Commission's Plan has accepted
3 the Commission's Plan (determined without including acceptance of the Plan by any insider),
4 section 1129(b) permits confirmation of the Commission's Plan notwithstanding its rejection by
5 one or more impaired classes of Claims or Equity Interests. Under that section, the
6 Commission's Plan may be confirmed by the Bankruptcy Court if it does not "discriminate
7 unfairly" and is "fair and equitable" with respect to each nonaccepting class of Claims or Equity
8 Interests. See Section VII.C.2 of this Disclosure Statement for a more detailed description of the
9 requirements for confirmation of a plan not accepted by all voting classes.

10 **D. Voting Procedures**

11 **1. General.**

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

19 DO NOT RETURN ANY SECURITIES OF PACIFIC GAS AND ELECTRIC
20 COMPANY WITH YOUR BALLOT.

21 TO BE COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION
22 OF THE COMMISSION'S PLAN MUST BE RECEIVED NO LATER THAN 4:00 P.M.,
23 EASTERN TIME ON _____, 2002 (THE "VOTING DEADLINE"). ANY
24 EXECUTED BALLOT THAT FAILS TO INDICATE AN ACCEPTANCE OR REJECTION
25 OF THE COMMISSION'S PLAN WILL NOT BE COUNTED. IF YOU VOTE IN FAVOR OF
26 BOTH COMPETING PLANS, THE BALLOT SHOULD ALSO INDICATE YOUR
27 PREFERENCE FOR THE COMMISSION'S PLAN OR THE PG&E PLAN.

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

3 The Voting Agent is:

4 Innisfree M&A Incorporated
5 501 Madison Avenue, 20th Floor
6 New York, New York 10022
7 Phone: (877) 750-2689 (Toll free)
8 Banks and brokers call: (212) 750-5833

9 Pursuant to the Disclosure Statement Order, the Bankruptcy Court set _____,
10 2002 as the Voting Record Date. Accordingly, only holders of record of Claims and Equity
11 Interests as of the Voting Record Date that otherwise are entitled to vote under the Commission's
12 Plan will receive a Ballot and may vote on the Commission's Plan.

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

17 Please note the following special instructions for holders of certain Claims and Equity
18 Interests.

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

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

25 If you are the beneficial owner of bonds, notes, debentures or shares of stock of the
26 Debtor as of the Voting Record Date, such bonds, notes, debentures or shares are registered in
27 "street name," AND YOUR BALLOT HAS BEEN PRE-VALIDATED BY YOUR NOMINEE,
28 please complete the information requested on the Ballot, sign, date and indicate your vote (and

1 preference, where applicable), and return the Ballot to the Voting Agent at the address set forth
2 above on or prior to the Voting Deadline.

3 If you are the beneficial owner of bonds, notes, debentures or shares of stock of the
4 Debtor as of the Voting Record Date, such bonds, notes, debentures or shares are registered in
5 “street name,” AND YOUR BALLOT HAS NOT BEEN PRE-VALIDATED BY YOUR
6 NOMINEE, sign, date and indicate your vote (and preference, where applicable), and return your
7 Ballot to your Nominee with enough time for your Nominee to forward the Ballot to the Voting
8 Agent prior to the Voting Deadline.

9 **3. Nominees of Beneficial Owners of Bonds, Notes, Debentures or Shares of**
10 **Stock.**

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

17 **4. Securities Clearing Agency.**

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

20 **E. Confirmation Hearing**

21 Pursuant to section 1128 of the Bankruptcy Code and the Disclosure Statement Order, the
22 Confirmation Hearing to consider confirmation of the Commission’s Plan will be held on
23 _____, 2002, commencing at _____ .m., Pacific Time, before the Honorable Dennis
24 Montali, United States Bankruptcy Judge, at the United States Bankruptcy Court for the
25 Northern District of California, 235 Pine Street, San Francisco, California 94014, or such other
26 location as the Bankruptcy Court directs. The Bankruptcy Court has directed that objections, if
27 any, to confirmation of the Commission’s Plan be served and filed so that they are received no
28 later than _____, 2002, at _____ p.m., Pacific Time, in the manner described below in

1 Section VII.B. of this Disclosure Statement. The Confirmation Hearing may be continued from
2 time to time by the Bankruptcy Court without further notice except for an announcement of the
3 continuation date made at the Confirmation Hearing.

4 **F. Miscellaneous**

5 THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE
6 MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN.
7 THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT CREATE AN
8 IMPLICATION THAT THE INFORMATION CONTAINED HEREIN HAS NOT CHANGED
9 OR WILL NOT CHANGE AFTER THE DATE HEREOF. HOLDERS OF CLAIMS AND
10 EQUITY INTERESTS ENTITLED TO VOTE SHOULD CAREFULLY READ THIS
11 DISCLOSURE STATEMENT (INCLUDING THE DOCUMENTS INCORPORATED
12 HEREIN BY REFERENCE) IN ITS ENTIRETY, INCLUDING THE COMMISSION'S PLAN
13 AND THE OTHER EXHIBITS, PRIOR TO VOTING ON THE COMMISSION'S PLAN.

14 THE INFORMATION IN THIS DISCLOSURE STATEMENT IS BEING PROVIDED
15 SOLELY FOR PURPOSES OF VOTING TO ACCEPT OR REJECT THE PLAN. NOTHING
16 IN THIS DISCLOSURE STATEMENT MAY BE USED BY ANY ENTITY FOR ANY
17 OTHER PURPOSE. THE FACTUAL INFORMATION CONTAINED IN THIS
18 DISCLOSURE STATEMENT, INCLUDING THE DESCRIPTION OF THE DEBTOR, ITS
19 BUSINESS AND EVENTS LEADING TO THE COMMENCEMENT OF THE CHAPTER 11
20 CASE, HAS BEEN OBTAINED FROM VARIOUS DOCUMENTS, AGREEMENTS, AND
21 OTHER WRITINGS RELATING TO THE DEBTOR. NEITHER THE COMMISSION NOR
22 ANY OTHER PARTY MAKES ANY REPRESENTATION OR WARRANTY REGARDING
23 SUCH INFORMATION.

24 FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND EQUITY INTERESTS,
25 THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE COMMISSION'S
26 PLAN. IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THIS
27 DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING. THIS
28 DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER

1 THAN TO DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE
2 COMMISSION'S PLAN, AND NOTHING STATED HEREIN SHALL BE DEEMED
3 CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE
4 COMMISSION'S PLAN ON PG&E OR ON HOLDERS OF CLAIMS OR EQUITY
5 INTERESTS. CERTAIN OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE
6 STATEMENT (INCLUDING THE DOCUMENTS INCORPORATED HEREIN BY
7 REFERENCE), TOGETHER WITH THE PROJECTED FINANCIAL INFORMATION
8 ANNEXED HERETO AS EXHIBIT C AND THE ASSUMPTIONS UNDERLYING SUCH
9 PROJECTED FINANCIAL INFORMATION, BY NATURE, ARE FORWARD-LOOKING
10 AND SUBJECT TO THE VARIOUS RISKS AND UNCERTAINTIES DESCRIBED IN
11 SECTION X OF THIS DISCLOSURE STATEMENT (INCLUDING THE DOCUMENTS
12 INCORPORATED HEREIN BY REFERENCE). ACTUAL OUTCOMES MAY DIFFER
13 MATERIALLY FROM THOSE EXPRESSED, IMPLIED OR ASSUMED FROM SUCH
14 FORWARD-LOOKING STATEMENTS. ALL HOLDERS OF CLAIMS AND EQUITY
15 INTERESTS SHOULD CAREFULLY READ AND CONSIDER FULLY THE RISK
16 FACTORS SET FORTH IN SECTION X OF THIS DISCLOSURE STATEMENT
17 (INCLUDING THE DOCUMENTS INCORPORATED HEREIN BY REFERENCE).

18 AS TO CONTESTED MATTERS, EXISTING LITIGATION INVOLVING THE
19 DEBTOR AND/OR THE COMMISSION, ADVERSARY PROCEEDINGS, AND OTHER
20 ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT
21 CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY,
22 STIPULATION, OR WAIVER, BUT RATHER AS A STATEMENT MADE WITHOUT
23 PREJUDICE SOLELY FOR SETTLEMENT PURPOSES, WITH FULL RESERVATION OF
24 RIGHTS, AND IS NOT TO BE USED FOR ANY LITIGATION PURPOSE WHATSOEVER.
25 AS SUCH, THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY
26 NONBANKRUPTCY PROCEEDING INVOLVING THE COMMISSION, THE DEBTOR, OR
27 ANY OTHER PARTY IN INTEREST, NOR SHALL IT BE CONSTRUED TO BE
28 CONCLUSIVE ADVICE ON THE TAX, SECURITIES, FINANCIAL OR OTHER EFFECTS

1 OF THE REORGANIZATION AS TO HOLDERS OF CLAIMS AGAINST OR EQUITY
2 INTERESTS IN THE DEBTOR.

3 SUMMARIES OF CERTAIN PROVISIONS OF AGREEMENTS REFERRED TO IN
4 THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE COMPLETE AND ARE
5 SUBJECT TO, AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO, THE
6 FULL TEXT AND TO ALL OF THE PROVISIONS OF THE APPLICABLE AGREEMENT,
7 INCLUDING THE DEFINITIONS OF TERMS CONTAINED IN SUCH AGREEMENT.

8 **G. The Competing Plan Process**

9 Pursuant to the Disclosure Statement Order, holders of Claims and Equity Interests are
10 entitled to accept or reject one or both of the Competing Plans as set forth in the accompanying
11 consolidated Ballot and voting instructions. Holders of Claims and Equity Interests are also
12 entitled to indicate their preference for one of the Competing Plans. Based upon the votes and
13 preferences cast by holders of Claims and Equity Interests with respect to each Competing Plan,
14 and upon whether the Competing Plans satisfy the requirements contained in the Bankruptcy
15 Code, the Court will decide whether to confirm one of the Competing Plans. The Commission
16 believes that the Court will determine the Commission's Plan to be the successful Competing
17 Plan and that the Commission's Plan will be approved by the Bankruptcy Court.

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

21 **II. OVERVIEW OF THE CLAIMS AND EQUITY INTERESTS**

22 **A. Summary Claims Table**

23 The following table briefly summarizes the classification and treatment of Claims and
24 Equity Interests under the Commission's Plan. While approximately \$44 billion of claims have
25 been filed with the Bankruptcy Court in connection with PG&E's Chapter 11 Case, the
26 Commission believes, based on discussions with PG&E's management, that the estimated
27 amounts set forth in the following table represent the most reasonable estimates of Allowed
28

1 Claims. See Section VI.B of this Disclosure Statement for a more detailed discussion of the
2 treatment of Claims and Equity Interests under the Commission’s Plan.

3 During its Chapter 11 Case, PGE has entered into a number of settlements with various
4 creditors regarding the allowance and treatment of such creditor’s Claims under the PG&E Plan.
5 See Section V of the Disclosure Statement describing PG&E’s reorganization case. With the
6 exception of those settlement provisions that are unique to the allowance and treatment of such
7 creditors’ Claims under the PG&E Plan and are not relevant here, such as the “Step Up” interest
8 rate provisions set forth in section 2(a)(ii) of the Settlement and Support Agreement and the
9 payment of a “placement fee” to certain Claim holders, the provisions governing allowance and
10 treatment of creditor Claims set forth in the creditor settlements are generally (i) incorporated
11 into and made part of the Commission’s Plan, and (ii) to be assumed and performed by the
12 Debtor or Reorganized Debtor, as the case may be, under the Commission’s Plan. By way of
13 example, the Commission’s Plan incorporates the principal terms of the following settlements:
14 the Committee Support Agreement (as defined below), the Settlement and Support Agreement,
15 the agreements between the Debtor and various of the drawn and undrawn Letter of Credit
16 Banks, the agreements between the Debtor and certain QFs, the agreements between the Debtor
17 and various representatives of mortgage, pollution control and other bonds issued by the Debtor
18 or insurance relating to such bonds, the agreements between the Debtor and various generators,
19 the PX and ISO, and any other such similar agreement, whether or not the terms of such
20 settlement are specifically referenced in the Commission’s Plan.

21 Under the Commission’s Plan, the Debtor will satisfy all Allowed Claims in full through
22 Cash payments, the reinstatement of certain of PG&E’s long-term indebtedness or payment in
23 the ordinary course of business. Allowed Claims will include the amounts owed with respect to
24 the period prior to the Petition Date and applicable interest accrued and unpaid during such
25 period. Except as otherwise described in the Plan, holders of Allowed Claims will also be paid
26 in Cash accrued and unpaid interest due on such Allowed Claims from the Petition Date through
27 the Effective Date (“Post-Petition Interest”). Except as otherwise described in the Plan,
28 including Exhibit 1 thereto, any Post-Petition Interest shall be calculated and paid on the

1 Allowed Claim at the lowest non-default rate in accordance with the terms specified in the
2 applicable statute, indenture or instrument governing such Allowed Claim or, if no such
3 instrument exists, or if the applicable instrument does not specify a non-default rate of interest,
4 Post-Petition Interest will be calculated and paid on the Allowed Claim at the Federal Judgment
5 Rate. Except as provided under applicable non-bankruptcy law, Post-Petition Interest will not be
6 paid on the following Allowed Claims: Administrative Expense Claims; Professional
7 Compensation and Reimbursement Claims; Environmental, Fire Suppression, Tort and FERC
8 License Claims; Chromium Litigation Claims and Workers' Compensation Claims.

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

23 Pursuant to the Settlement Order and Settlement and Support Agreement, the accrual and
24 payment of Post-Petition Interest will terminate if (i) the Debtor is determined by a Final Order
25 of the Bankruptcy Court to be insolvent (on a balance sheet basis), with such interest accrual
26 termination effective as of the date of insolvency, as determined by the Bankruptcy Court,

27 ³ 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 (ii) upon conversion of the Chapter 11 Case to a case under chapter 7; provided that there is not a
2 subsequent determination of the Bankruptcy Court that there are assets of sufficient value to pay
3 Post-Petition Interest on the applicable Allowed Claims, or (iii) under circumstances that would
4 allow for recharacterization, as described below.

5 Any payments of Post-Petition Interest may be recharacterized and treated as partial
6 payment of the principal amount of the applicable Allowed Claims under the following
7 circumstances: (i) in the event that the Bankruptcy Court determines, by entry of a Final Order,
8 that the Debtor is insolvent (on a balance sheet basis), from the date of insolvency as determined
9 by the Bankruptcy Court; or (ii) if this Plan is not confirmed and another plan of reorganization
10 other than PG&E's Plan is confirmed, in which case any payment of pre-petition interest and
11 Post-Petition Interest made pursuant to the Settlement Order and the Settlement and Support
12 Agreement that exceeds the amount of pre-petition interest and Post-Petition Interest otherwise
13 required to be paid to the holders of the affected Allowed Claims under the terms of such other
14 confirmed plan of reorganization may, in the sole discretion of the proponent(s) of such plan, be
15 recharacterized and treated as a partial payment of the principal amount of the applicable
16 Allowed Claims. **IF THE COMMISSION'S PLAN IS CONFIRMED, THE COMMISSION
17 WILL NOT RECHARACTERIZE THE PAYMENTS OF POST-PETITION INTEREST MADE
18 BY THE DEBTOR PURSUANT TO THE SETTLEMENT ORDER AND SETTLEMENT AND
19 SUPPORT AGREEMENT.**

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

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
—	Administrative Expense Claims	Paid in full in Cash.	\$ 1,300 ⁴
—	Professional Compensation and Reimbursement Claims	Paid in full in Cash.	Unknown
—	Priority Tax	Paid in full in Cash.	\$ 54
1	Other Priority Claims	Unimpaired – Paid in full in Cash.	Nominal

⁴ 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.

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<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
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 ⁵
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 due and owing under the applicable Loan Agreement will also be paid in Cash.	\$ 345
4b	MBIA Insured PC Bond Claims	Unimpaired – The MBIA Insured PC Bonds will remain outstanding and be reinstated and	\$ 201

⁵ This amount is net of the approximately \$277 million of First and Refunding Mortgage Bonds held by the Debtor in treasury.

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<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	Estimated Aggregate Amount of Allowed Claims (in millions)
		<p>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.</p>	
4c	MBIA Claims	<p>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.</p>	Nominal
4d	Letter of Credit Backed PC Bond Claims	<p>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 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 Agreements will also be paid in Cash.</p>	\$613,550

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<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	Estimated Aggregate Amount of Allowed Claims (in millions)
		Loan Agreements will also be paid in Cash.	
4e	Letter of Credit Bank Claims	<p>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 (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</p>	Nominal

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Class

Claim/Interest

Treatment of Allowed Claim/Interest

**Estimated
Aggregate
Amount of
Allowed Claims
(in millions)**

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. The interest rate on each Letter of Credit Bank Claim, interest payment start date and interest payment intervals are set forth on Exhibit 1 to the Plan.

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:

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

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**Estimated
Aggregate
Amount of
Allowed Claims
(in millions)**

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>
		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 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 -
		<u>Remarketing Option:</u> 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) shall 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

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**Estimated
Aggregate
Amount of
Allowed Claims
(in millions)**

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>
		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 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 -
		<u>No Bonds Option:</u> 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

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

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<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
		paid out of a draw on the respective Letter of Credit.	
4f	Prior Bond Claims	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: 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 amendments 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	\$ 454 ⁶

⁶ 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 Class 4e claim that is converted to a Class 4f claim in accordance with the “No Bonds Option” as described in treatment of Allowed 4e Claims.

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Class Claim/Interest

Treatment of Allowed Claim/Interest

**Estimated
Aggregate
Amount of
Allowed Claims
(in millions)**

paid out of a draw on the respective Letter of Credit.

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.

- or -

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 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

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**Estimated
Aggregate
Amount of
Allowed Claims
(in millions)**

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	
		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 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.	\$ 810

			Estimated Aggregate Amount of Allowed Claims (in millions)
<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	
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).	\$ 1,068 ⁷
7	ESP Claims	Impaired – Each holder of an Allowed ESP Claim will be paid in Cash (which shall include pre-petition interest only to the extent not previously paid).	\$ 421 ⁸
8	Environmental, Fire Suppression Tort and FERC License Claims	Unimpaired – Subject to Section 4.16(b) of the Commission’s Plan, each Allowed Environmental, Fire Suppression, 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.	\$ 350 ⁹
9	Chromium Litigation Claims	Unimpaired – Each Allowed Chromium Litigation Claim will be satisfied in full in the ordinary course of business at such time and in such manner as the Debtor or Reorganized	\$ 160 ¹⁰

⁷ 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.M.16 of this Disclosure Statement for more detailed information regarding the Claims of generators.

⁸ 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.

⁹ This amount represents PG&E’s estimate of Allowed Environmental, Fire Suppression, Tort and FERC License Claims. The aggregate amount of filed Environmental, Fire Suppression, Tort and FERC License Claims is materially higher.

¹⁰ This amount represents PG&E’s estimate of Allowed Chromium Litigation Claims for purposes of feasibility. The aggregate amount of filed Chromium Litigation Claims is materially higher.

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<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
		Debtor, as the case may be, is obligated to satisfy such Allowed Claim under applicable law.	
10	Convenience Claims	Unimpaired – Paid in full in Cash.	\$ 60
11	QUIDS Claims	Impaired – Paid in full in Cash.	\$ 300 ¹¹
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 ¹² – Each holder of a Preferred Stock Equity Interest will retain its 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.	\$ 430
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 Common Stock by the Reorganized Debtor.	N/A

¹¹ This amount excludes \$9 million of QUIDS Claims held by a subsidiary of the Debtor.

¹² 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 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 **B. Claims Objection Process**

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

13 According to PG&E, approximately 13,000 proofs of claim have been filed in an
14 aggregate face amount of approximately \$44 billion. However, based on discussions with
15 PG&E's management, the Commission believes that accurate estimates of the allowable amount
16 of all Claims in this Chapter 11 Case are as set forth in the table above.

17 As of March 1, 2002, the Debtor had resolved or filed objections to, or requested a
18 determination of procedures for estimation with respect to most Claims of \$10 million or more to
19 which it objects. PG&E has estimated that by June 30, 2002, it anticipates resolving or filing
20 objections to most of the remaining Claims to which it objects (i.e., those for less than
21 \$10 million); however, PG&E reserves the right to object to Claims beyond that date. See
22 Section VI.G of this Disclosure Statement for more information on the treatment of Disputed
23 Claims. PG&E has represented that at or before the Confirmation Hearing, the PG&E
24 Proponents intend to propose a means for establishing (a) the aggregate amount of allowed or
25 allowable claims, for purposes of evaluating the feasibility of the plan and (b) the aggregate
26 amount necessary to fund an escrow for Disputed Claims.

27 Without limiting the foregoing, the Commission understands, based on information
28 provided by PG&E, that Claims in the following classes may be overstated and that the Debtor

1 will file objections to all such Claims: Class 6—ISO, PX and Generator Claims, Class 7—ESP
2 Claims, and Class 9—Chromium Litigation Claims. Accordingly, all Claims in the foregoing
3 classes will be Disputed Claims under the Commission’s Plan.

4 **III. DESCRIPTION AND HISTORY OF THE DEBTOR’S BUSINESS**¹³

5 **A. Overview**

6 The Debtor, Pacific Gas and Electric Company, a California corporation, was
7 incorporated in 1905. Effective January 1, 1997, the Debtor and its subsidiaries became
8 subsidiaries of the Parent, a California corporation, whose common stock and related preferred
9 stock purchase rights are publicly traded (NYSE:PCG). In the holding company reorganization,
10 the outstanding common stock of the Debtor was converted on a share-for-share basis into
11 common stock of the Parent. The Debtor’s debt securities and preferred stock were unaffected
12 by the holding company reorganization and, other than those debt securities repaid or preferred
13 stock redeemed or repurchased prior to the Petition Date, remain issued and outstanding
14 securities of the Debtor. The Debtor is an operating public utility engaged principally in the
15 business of providing electric generation and electric and natural gas distribution and
16 transmission services throughout most of Northern and Central California. The Debtor’s service
17 territory covers approximately 70,000 square miles with an estimated population of
18 approximately 13 million and includes all or a portion of 48 of California’s 58 counties.

19 **B. Operations**

20 **1. Electric Utility Operations.**

21 The Debtor owns and operates electric generation facilities and an electric transmission
22 and distribution system in Northern and Central California. As of December 31, 2000, the
23 Debtor’s generation facilities, consisting primarily of hydroelectric and nuclear generating
24 plants, had an aggregate net operating capacity of 6,649 megawatts (“MW”). During 2000, the
25 Debtor’s own generation and generation purchased by the Debtor under contracts with qualifying
26 facilities (“QFs”) and other power suppliers represented approximately two-thirds ($\frac{2}{3}$) of the

27 ¹³ 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 demand of the Debtor's retail electric customers. To transport electricity to load centers, as of
2 December 31, 2000, the Debtor owned 18,648 miles of interconnected transmission lines of 60
3 kilovolts ("kV") to 500 kV and transmission substations having a capacity of approximately
4 7,091 megavolt-amperes ("MVa"). The Debtor distributes electricity to its customers through
5 116,460 circuit miles of distribution system and distribution substations having a capacity of
6 approximately 24,894 MVa. For the year ended December 31, 2001, the Debtor sold 46,818,999
7 MW to its bundled retail customers and transported 3,982,112 MW to direct access customers.
8 In connection with the California electric industry restructuring, the Debtor relinquished
9 operational control, but not ownership, of its electric transmission facilities to the California
10 Independent System Operator (the "ISO"). The ISO controls the operation of the transmission
11 system, is responsible for assuring the reliability of the electric system and provides open access
12 transmission service on a nondiscriminatory basis. See Section IV of this Disclosure Statement
13 for a more detailed discussion of electric industry restructuring.

14 **2. Gas Utility Operations.**

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

25 **C. Regulation**

26 The Debtor is currently subject to both federal and state regulation. At the federal level,
27 the FERC regulates, among other things, electric transmission rates and access, interconnections,
28 operation of the ISO and terms and rates of wholesale electric power sales. The ISO has

1 responsibility for meeting applicable reliability criteria, planning transmission additions and
2 assuring the maintenance of adequate reserves and is subject to FERC regulation of tariffs and
3 conditions of service. In addition, most of the Debtor's hydroelectric facilities operate pursuant
4 to licenses issued by the FERC. In some cases, certain facilities covered by FERC licenses are
5 also subject to United States Forest Service Special Use Permits.

6 The Nuclear Regulatory Commission ("NRC") oversees the licensing, construction,
7 operation and decommissioning of nuclear facilities, including the Debtor's Diablo Canyon
8 Power Plant and the retired Humboldt Bay Power Plant Unit 3. NRC regulations require
9 extensive monitoring and review of the safety, radiological and certain environmental aspects of
10 the Debtor's nuclear facilities.

11 At the State level, the Commission has jurisdiction to set retail rates and conditions of
12 service for the Debtor's electric distribution, gas distribution and gas transmission services in
13 California. The Commission also has jurisdiction over, among other things, the Debtor's sales of
14 securities, dispositions of utility property, energy procurement on behalf of its electric and gas
15 retail customers, and certain aspects of the Debtor's siting and operation of its electric and gas
16 transmission and distribution systems. In an order issued on December 15, 2000 addressing the
17 dysfunctional California electric market, the FERC ordered the elimination of the Commission-
18 imposed requirement that all generation owned or controlled by the Debtor be sold for resale into
19 the California Power Exchange ("PX"). To the extent such power is sold for resale into
20 wholesale markets, it is under the ratemaking jurisdiction of the FERC, while ratemaking for
21 retail sales from the Debtor's remaining generation facilities is under the jurisdiction of the
22 Commission.

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

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

3 **D. Unions/Workers' Compensation**

4 **1. Unions.**

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

11 **2. Workers' Compensation Obligations.**

12 Every private employer in California is required to provide workers' compensation
13 coverage, either by purchasing workers' compensation insurance or, with the permission of the
14 State, self-insuring. To self-insure, employers must meet certain criteria for financial strength
15 and stability and must provide security to cover their future workers' compensation liabilities in
16 the event they default on obligations to pay benefits. The security must be in the form of cash,
17 approved securities, surety bonds or irrevocable letters of credit. The Debtor is self-insured and
18 the Parent has entered into an Agreement of Assumption and Guarantee of Liabilities on behalf
19 of the Debtor. The Parent also guarantees the \$401 million of surety bonds the Debtor has in
20 place to secure its workers' compensation obligations. Nothing in the Commission's Disclosure
21 Statement or the Plan shall affect (i) the rights of any surety or the Parent with respect to the
22 Workers' Compensation Indemnity Agreements or (ii) the rights of the parties to object to the
23 existence of such rights.

24 **E. Litigation**

25 **1. Rate Recovery Litigation.**

26 On November 8, 2000, the Debtor commenced the Rate Recovery Litigation in federal
27 court in a case styled Pacific Gas and Electric Co. v. Loretta Lynch, et. al., case no. C-00-4128-
28 SBA (N.D. Cal.). In the Rate Recovery Litigation, the Debtor asked the court for declaratory

1 and injunctive relief compelling the Commission to permit Debtor to recover in retail rates the
2 costs which it incurred or incurs in the federally-regulated wholesale market. The Debtor argued
3 that its wholesale power costs were incurred pursuant to filed rates and tariffs which the FERC
4 had authorized and approved and, under the United States Constitution and court decisions, such
5 costs cannot be disallowed by state regulators, as such actions would be preempted, unlawfully
6 interfere with interstate commerce and result in an unlawful taking and confiscation of the
7 Debtor's property.

8 On January 29, 2001, the Rate Recovery Litigation was transferred to the United States
9 District Court for the Central District of California, where a similar case filed by Southern
10 California Edison Company ("Edison") was pending. On March 19, 2001, the court heard
11 argument on the Commission's motion to dismiss the Debtor's amended complaint. On May 2,
12 2001, the District Court judge dismissed the Debtor's amended complaint, without prejudice to
13 refiling at a later date, on the ground that the Rate Recovery Litigation was premature since two
14 Commission decisions had not become final under California law. On August 6, 2001, the
15 Debtor refiled its Rate Recovery Litigation in the United States District Court for the Northern
16 District of California, based on the Debtor's belief that the Commission decisions referenced in
17 the court's May 2, 2001 order had become final under California law. The Commission and The
18 Utility Reform Network ("TURN") have filed motions to dismiss the complaint. On
19 November 26, 2001, the case was transferred to District Court Judge Walker in the Northern
20 District of California as a related case with the Debtor's appeal of the Bankruptcy Court's denial
21 with prejudice of the Debtor's request for injunctive and declaratory relief against the accounting
22 order adopted by the Commission in March 2001. A case management conference in both
23 actions was held on March 7, 2002. The Commission's and TURN's motions to dismiss are
24 pending. The Rate Recovery Litigation would be dismissed with prejudice under the
25 Commission's Plan. See Section VI.C.3 of the Disclosure Statement regarding Plan
26 Implementation.

1 **2. Compressor Station Chromium Litigation.**

2 The Debtor is currently a defendant in the following fifteen (15) civil actions pending in
3 California courts relating to alleged chromium contamination: (1) Aguayo v. Pacific Gas and
4 Electric Company, filed March 15, 1995 in Los Angeles County Superior Court, (2) Aguilar v.
5 Pacific Gas and Electric Company, filed October 4, 1996 in Los Angeles County Superior Court,
6 (3) Acosta, et al. v. Betz Laboratories, Inc., et al., filed November 27, 1996 in Los Angeles
7 County Superior Court, (4) Adams v. Pacific Gas and Electric Company and Betz Chemical
8 Company, filed July 25, 2000 in Los Angeles County Superior Court, (5) Baldonado vs. Pacific
9 Gas and Electric Company, filed October 25, 2000 in Los Angeles County Superior Court,
10 (6) Gale v. Pacific Gas and Electric Company, filed January 30, 2001 in Los Angeles County
11 Superior Court, (7) Monice v. Pacific Gas and Electric Company, filed March 15, 2001 in San
12 Bernardino County Superior Court, (8) Fordyce v. Pacific Gas and Electric Company, filed
13 March 16, 2001 in San Bernardino Superior Court, (9) Puckett v. Pacific Gas and Electric
14 Company, filed March 30, 2001 in Los Angeles County Superior Court, (10) Alderson, et al. v.
15 PG&E Corporation, Pacific Gas and Electric Company, Betz Chemical Company, et al., filed
16 April 11, 2001 in Los Angeles County Superior Court, (11) Bowers, et al. v. Pacific Gas and
17 Electric Company, et al., filed April 20, 2001 in Angeles County Superior Court, (12) Boyd, et
18 al. v. Pacific Gas and Electric Company, et al., filed May 2, 2001 in Los Angeles County
19 Superior Court, (13) Martinez, et al. v. Pacific Gas and Electric Company, filed June 29, 2001 in
20 San Bernardino County Superior Court (14) Kearney v. Pacific Gas and Electric Company, filed
21 November 15, 2001 in Los Angeles County Superior Court, and (15) Miller v. Pacific Gas and
22 Electric Company, filed November 21, 2001 in Los Angeles County Superior Court. As of
23 April 3, 2002, the Debtor had not yet been served with the complaints in the Gale, Fordyce,
24 Puckett, Alderson, Bowers, Boyd, Martinez, Kearney or Miller cases.

25 According to the Debtor, there are now approximately 1,280 plaintiffs in the Chromium
26 Litigation with claims against the Debtor. Each of the complaints alleges personal injuries and
27 seeks compensatory and punitive damages in an unspecified amount arising out of alleged
28 exposure to chromium contamination in the vicinity of the Debtor's gas compressor stations

1 located at Kettleman, Hinkley, and Topock, California. The plaintiffs include current and former
2 employees of the Debtor and their relatives, residents in the vicinity of the compressor stations,
3 and persons who visited the gas compressor stations. The plaintiffs also include spouses or
4 children of these plaintiffs who claim loss of consortium or wrongful death.

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

11 Prior to the Petition Date, the Debtor was responding to the complaints in which it had
12 been served and asserting affirmative defenses. As of the Petition Date, the Debtor had filed
13 thirteen (13) summary judgment motions challenging the claims of the trial test plaintiffs in the
14 Aguayo Litigation and completed discovery of plaintiffs' experts. Plaintiffs' discovery of the
15 Debtor's experts was underway. At this stage of the proceedings and the claims objections, there
16 is substantial uncertainty concerning the claims alleged, and the Debtor has indicated that it is
17 attempting to gather information concerning the alleged type and duration of exposure, the nature
18 of injuries alleged by individual plaintiffs, and the additional facts necessary to support its legal
19 defenses, in order to better evaluate and defend this litigation and the proofs of claim filed.

20 Approximately 1,250 individuals have filed proofs of claim in this Chapter 11 Case
21 (nearly all by plaintiffs in the Chromium Litigation) asserting that exposure to chromium at or
22 near the compressor stations has caused personal injuries, wrongful death or related damages.
23 On November 14, 2001, the Debtor filed its Omnibus Objections to Chromium Claims and its
24 Motion to Certify and Transfer the Chromium Claims to the Federal District Court. On
25 January 8, 2002, the Bankruptcy Court issued a Memorandum of Decision denying the Debtor's
26 Motion to Certify And Transfer the Chromium Claims to Federal District Court, granting the
27 Claimants' Motion for Abstention and granting the Claimants' Motion for Relief from Stay. The
28 Memorandum of Decision requires the parties to prepare orders that will lift the automatic stay

1 and allow the state court lawsuits to proceed for those individuals who timely filed Claims in the
2 Chapter 11 Case and filed state court lawsuits prior to the Petition Date.

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

9 Second, PG&E maintains that the Chromium Litigation Claims are procedurally and
10 legally deficient. Most, if not all, of the Chromium Litigation Claims are untimely. The first
11 lawsuits for alleged exposure to chromium from the Debtor were filed in 1994. PG&E has
12 indicated that it believes that the Chromium Litigation Claims are barred because Claimants
13 knew, or should have known, of the basis of their Claims well over one year before they filed the
14 pending state court lawsuits or Claims at issue. See McKelvey v. Boeing North American Inc.,
15 74 Cal. App. 4th 151, 160 (1999). In addition, the Chromium Litigation Claims filed by current
16 or former employees of the Debtor are further deficient because workers' compensation is the
17 exclusive remedy to resolve such Claims. Moreover, the grossly inflated damages asserted are
18 not substantiated by the proofs of claim filed. Finally, the Claims are also inflated because they
19 incorrectly seek to recover punitive damages against the Debtor for the use of chromium water
20 treatment products that ceased more than fifteen (15) years ago.

21 For accounting purposes, the Debtor has reserved \$160 million for the Chromium
22 Litigation. However, for all of the reasons set forth in the objections and summarized above, it is
23 the Debtor's position that the Chromium Litigation Claims should be disallowed because they
24 are not valid claims. For the same reasons, it is the Debtor's position that the complaints in the
25 Chromium Litigation are subject to legal and factual defenses, including those described above.
26 Under the Commission's Plan, all Chromium Litigation Claims are assigned to Class 9 —
27 Chromium Litigation Claims. All Claims in Class 9 are Disputed Claims.

1 **3. Claims Against the State.**

2 Pursuant to the Plan, all Claims Against the State will be dismissed with prejudice,
3 including the Rate Recovery Litigation described above. A Schedule of Claims Against the State
4 will be filed as part of the Commission’s Plan Supplement.

5 **IV. EVENTS PRECEDING THE COMMENCEMENT**
6 **OF THE CHAPTER 11 CASE**

7 While the Commission vigorously disputes a material portion of the PG&E Proponents’
8 description of the matters contained in Section IV of PG&E Disclosure Statement, also captioned
9 “Events Preceding the Commencement of the Chapter 11 Case,” they will not be debated here.
10 In addition, much of what is contained in the PG&E Proponents’ recitation is, in the
11 Commission’s view, simply not relevant to the proceedings before the Bankruptcy Court.
12 Therefore, the Commission will present a brief summary of the material facts that it believes are
13 relevant to this case.

14 **A. Electric Restructuring Background**

15 In 1996, the State of California initiated the restructuring of its electric power industry.
16 With the support of PG&E, Edison, and others, the California Legislature enacted Assembly Bill
17 (“AB”) 1890, which provided for the introduction of generation competition into California’s
18 electricity market and imposed a rate freeze on retail electric rates in California.¹⁴ At that time,
19 the utilities claimed that they were saddled with a large amount of “stranded costs,” which were
20 so great that the utilities claimed that they had little hope of recovering them in the normal
21 course in the newly competitive market. These stranded costs were costs associated with utility
22 generating assets that were expected to be uneconomic in a competitive market (further
23 subdivided into nuclear and other, non-nuclear facilities); existing power purchase obligations

24 _____
25 ¹⁴ 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 (consisting of QF contracts and wholesale contracts); and other regulatory obligations (e.g.,
2 deferred taxes).

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

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

20 Beginning in 1996, the Commission issued a number of decisions determining both the
21 rate mechanisms for recovery of stranded costs, and the revenue requirements for the costs of
22 providing electric service during the rate freeze period. The Commission established two major
23 accounting mechanisms to track the costs and revenues associated with stranded cost recovery:
24 the Transition Cost Balancing Account (“TCBA”) and the Transition Revenue Account
25 (“TRA”).¹⁵

26 ¹⁵ PG&E’s revenue during the transition period is tracked in the TRA, as are its ongoing costs of providing
27 utility service (e.g. costs associated with distribution, transmission, and purchasing energy). Any excess in
28 the TRA after subtracting those costs from those revenues is referred to as “headroom.” Headroom in the
TRA is transferred to the TCBA on a monthly basis and can be applied to the recovery of stranded costs.
Authorized stranded costs are booked into and recovered through the TCBA. In general terms, the TCBA

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

6 AB 1890 also created the Independent System Operator Corporation (the "ISO"), which
7 is the non-profit entity responsible for operating the transmission systems owned by the
8 California utilities and conducts various energy and capacity auctions for wholesale electricity
9 and ancillary services, and the California Power Exchange Corporation ("PX"), which was a
10 non-profit entity that conducted auctions for wholesale electricity.¹⁶ For AB 1890 to be
11 implemented, the FERC had to approve certain filings by the ISO, PX and the California utilities
12 which supported market-based (deregulated) electric wholesale rates.

13 In PG&E's March 31, 1997 "Phase II Market Power Filing" (pp. 7-9) at the FERC,
14 PG&E advocated that the FERC authorize the ISO and PX to commence operations with market-
15 based rates for electric wholesale power even though PG&E would be both a purchaser and a
16 seller of electric wholesale power. As part of PG&E's market mitigation proposal, PG&E
17 explained to FERC that it would not have an incentive to manipulate prices, because under AB
18 1890's rate freeze, artificially high PX prices would have a negative effect on PG&E's ability to
19 collect its stranded costs, because it could not pass those costs on to ratepayers if those costs
20 were above its headroom. In 1997, the FERC authorized the ISO and PX to commence

23 tracks the accelerated cost recovery of generation assets and other authorized transition costs. Revenues
24 are recorded in the TCBA on a monthly basis when headroom revenues are credited to the TCBA. In
25 addition, revenues are recorded when generation assets are sold for greater than net book value. This
26 mechanism was also designed so that losses on any sales would be debited to the TCBA as "stranded
27 costs." Costs are tracked on a monthly basis and are recorded in three general subaccounts: current costs,
28 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.

¹⁶ Cal. Pub. Util. Code §§ 334-356. The PX is no longer in operation.

1 operations. The FERC summarized PG&E's market mitigation proposal, adopted it, and made
2 PG&E's market-based rates subject to the AB 1890 rate freeze.¹⁷

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

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

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

15 In May 2000, prices in California's restructured electric markets rose suddenly to
16 unprecedented levels. These extraordinary prices persisted for over a year, costing Californians
17 tens of billions of dollars. In May 2000, average PX prices were 100% higher than prices in May
18 1999. In June 2000, prices skyrocketed. The total estimated energy and Ancillary Services¹⁸
19 costs for June was \$3.6 billion, or \$166/MW. This compares to total energy and Ancillary
20 Services costs for the entire 1999 calendar year of approximately \$7 billion.¹⁹ The Commission
21 estimates that generators charged some \$4 billion in excess of competitive baseline prices in the
22 June-September period. California consumers did not fare better in the fall and winter despite

23 ¹⁷ Pacific Gas and Electric Company, 81 FERC ¶ 61,122 (1997).

24 ¹⁸ "Ancillary Services" are services that must be procured along side generation that are required to guarantee
25 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.

26 ¹⁹ Extraordinary high prices continued over the summer months. July spot market prices averaged \$118/MW,
27 with total costs estimated at \$2.55 billion. August spot market prices averaged \$180/MW, and total costs
28 for the month exceeded \$4 billion. September 2000 prices averaged \$126/MW, compared to September
1999 prices averaging \$38/MW. October 2000 prices averaged \$104/MW.

1 the arrival of cooler weather and reduced demand.²⁰ Although prices declined in September and
2 October, they skyrocketed again after FERC removed the cap on wholesale prices. Costs for
3 calendar year 2000 totaled \$27 billion, compared to \$7 billion in 1999. Because PG&E was
4 under a retail rate freeze, this astronomical increase in the cost of wholesale electricity resulted in
5 PG&E collecting less in rates than its cost of procuring wholesale electricity.²¹

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

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

9 In response to emergency petitions filed by both PG&E and Edison and after expedited
10 proceedings, on January 4, 2001, the Commission issued D.01-01-018, an interim opinion
11 regarding the utilities' emergency requests for rate increases, which made preliminary changes to
12 accounting mechanisms and set forth a process for considering additional changes.²² In this
13 interim decision, the Commission authorized a \$.01/kwh surcharge for ninety days, subject to
14 refund.

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

18
19 ²⁰ 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 ²¹ 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
(2001). The Chief FERC Administrative Law Judge has estimated refund liability at roughly \$1 billion,
32 while the State of California has claimed refund liability at approximately \$9 billion.

33 ²² See D.01-01-018, pp. 3, 11-12. As of January 4, 2001, the pending Commission proceedings have utilized
34 A.00-11-038 as the lead docket number.

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

7 On March 27, 2001, the Commission issued an order (the "March 27 Order") which
8 authorized a prospective \$.03/kwh rate increase for both PG&E and Edison, on top of the
9 \$.01/kwh surcharge authorized on January 4, 2001 in D.01-01-018, making the previously
10 interim \$.01/kwh surcharge, permanent. Overall, this resulted in approximately a 40% rate
11 increase.²³

12 In addition, SBX2 85, approved by the Governor and signed into law on September 28,
13 2001, adds Section 368.5 to the Public Utilities Code and prohibits the Commission from raising
14 electrical rates to the pre-10% rate reduction levels solely because the mandatory rate period has
15 expired.

16 Because of sustained and unprecedented increases in wholesale procurement costs,
17 PG&E and Edison found it increasingly difficult to service their existing debt obligations,
18 purchase power and borrow funds. Although the State, the Commission and the Legislature
19 worked to address the utilities' immediate financial concerns in the context of a state-wide
20 energy crisis, PG&E reached its own conclusion.

21 PG&E filed a voluntarily petition for relief under chapter 11 of the Bankruptcy Code on
22 April 6, 2001.

23 ²³ 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.

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V. THE REORGANIZATION CASE²⁴

A. Commencement of the Chapter 11 Case

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

B. Administration of the Chapter 11 Case

1. First Day Orders.

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

2. Second Day Orders.

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

3. Third Day Orders.

On April 10, 2001, PG&E obtained various orders from the Bankruptcy Court that allowed PG&E to satisfy certain obligations to its customers without disruption. The Bankruptcy Court granted PG&E the authority to issue refunds of security deposits to residential and non-residential customers as those deposits become eligible for refund through PG&E's existing deposit refund policies. Based on historical averages, PG&E refunds approximately \$3.5 million

²⁴ In many places, the Commission relies on the factual representations contained in the PG&E Disclosure Statement. The Commission has not independently verified such representations.

1 in residential and non-residential customer deposits per month. The Bankruptcy Court also
2 granted PG&E the authority to issue refunds of mainline extension service deposits to individual
3 residential customers pursuant to an order issued the following day. These deposits are required
4 when engineering and construction work is needed to develop bare lots or add new loads to
5 existing service.

6 **4. Creditors' Committee.**

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

21 **5. Public Purpose Programs.**

22 On April 24, 2001, PG&E filed a motion with the Bankruptcy Court asking the Court to
23 confirm that the funds collected by PG&E for its Public Purpose Programs — including energy
24 efficiency, low income, research and development and renewable generation programs — are not
25 part of the bankruptcy estate and can be used to honor pre-petition obligations incurred in
26 connection with the programs. At the time of the motion, PG&E owed approximately
27 \$37 million to customers who requested rebates and contractors who performed work in homes
28 and businesses to make them more energy efficient. PG&E purports to operate the most

1 extensive energy efficiency programs in the nation and argued that the continued vitality of the
2 programs is critical to reduce the State's capacity constraints. The Bankruptcy Court approved
3 PG&E's motion on May 16, 2001.

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

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

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

13 On April 26, 2001, PG&E filed a motion with the Bankruptcy Court asking the court to
14 authorize payment of the unpaid pre-petition portion of its property taxes. PG&E pays property
15 taxes in 49 counties. PG&E filed the motion to allow it to immediately pay up to \$41.2 million,
16 its portion of property taxes accrued prior to the Petition Date. PG&E's total property tax
17 accrued through March 31, 2001 was \$78.5 million, and it paid the post-petition portion of
18 \$37.3 million on or before April 10, 2001. PG&E has stated that it sought court authorization to
19 pay its pre-petition portion of the property taxes because counties depend on taxes paid by
20 PG&E to fund many services and PG&E wanted to limit the impact of the Chapter 11 Case on
21 local governments. The Bankruptcy Court approved PG&E's motion with some modifications
22 on May 16, 2001.

23 **8. Request for Preliminary Injunction Against the ISO.**

24 On May 3, 2001, PG&E filed an adversary proceeding and a motion for a preliminary
25 injunction in the Bankruptcy Court, asking the court to direct the ISO to comply with bankruptcy
26 law, its tariff, and a recent FERC ruling by ceasing to purchase wholesale power on behalf of
27 PG&E or billing PG&E for such purchases. The ISO had sent PG&E a bill for spot market
28 purchases over a two-month period that totaled nearly \$1 billion. PG&E's adversary action,

1 which included a request for a preliminary injunction, asked the court to enjoin the ISO from
2 requiring PG&E to pay costs the ISO has incurred and continues to incur to purchase wholesale
3 power on its behalf, unless PG&E can fully recover these costs. The motion was premised upon
4 a FERC order specifying that since PG&E failed to satisfy the credit requirements under the ISO
5 tariffs, it was not a creditworthy buyer and, consequently, the ISO lacked authority to make real
6 time purchases on its behalf.

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

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

16 On May 4, 2001, the United States Trustee appointed a Ratepayers' Committee. On
17 May 9, 2001, PG&E filed a motion with the Bankruptcy Court asking the court to vacate the
18 United States Trustee's appointment of the Ratepayers' Committee. The filing indicated that the
19 creation of a Ratepayers' Committee exceeded the authority of the United States Trustee because
20 it was inconsistent with express provisions of the Bankruptcy Code. On May 18, 2001, the
21 Bankruptcy Court granted PG&E's motion and vacated the Ratepayers' Committee. On July 10,
22 2001, the Bankruptcy Court denied a motion by the United States Trustee and the putative
23 Ratepayers' Committee for reconsideration of its order vacating the Ratepayers' Committee.

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

25 On May 25, 2001, PG&E filed a motion requesting authorization with respect to a variety
26 of employee-related matters, including: making pre-petition payments for severance and
27 transition to employees who worked on now-divested power plants; making pre-petition
28 payments to administrative, technical and lower-level management employees (including

1 hundreds of first-line supervisors) under various existing incentive and recognition programs;
2 implementing a retention program designed to retain a small number of essential employees who
3 are necessary to the reorganization process and the continuation of the operation and
4 maintenance of the gas and electric transmission and distribution facilities and generation
5 facilities; and continuing its existing severance program. The Bankruptcy Court approved
6 PG&E's motion regarding each employee-related matter, other than the management retention
7 program, on June 28, 2001, and approved PG&E's motion regarding the management retention
8 program on July 13, 2001.

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

10 The March 27 Order, among other things, required PG&E to restate all its books and
11 accounts retroactively to January 1, 1998, by transferring on a monthly basis the balance in
12 PG&E's TRA to PG&E's TCBA. Contrary to the views expressed in the PG&E Disclosure
13 Statement, the Accounting True-Up does not have the effect of treating any negative balance, or
14 under-collection, in the TRA as an additional category of transition costs, through the transfer of
15 those negative balances to the TCBA. The TCBA is merely an accounting device to track the
16 *recovery* of transition costs; it does not represent the *amount* of transition costs. The True-Up
17 simply corrects an anomaly in the way that the utilities, including PG&E, had accounted for the
18 recovery of transition costs in the TCBA, and allows the Commission to consider the net effect
19 of recovery of both operating costs (including procurement costs) and transition costs for the
20 entire period of the rate freeze. The amount of transition costs recorded in the TCBA are not
21 affected by transferring any negative balances in the TRA into the TCBA. See Section IV.C. of
22 this Disclosure Statement for a more detailed discussion of the March 27 Order.

23 On April 9, 2001, PG&E asked the Bankruptcy Court to stay the Commission's
24 implementation and enforcement of the Accounting True-Up. On June 1, 2001, the Bankruptcy
25 Court denied PG&E's request for a stay and an injunction on the transition period accounting
26 proposal. PG&E appealed the Bankruptcy Court's decision to the United States District Court
27 for the Northern District of California; PG&E's appeal is pending. PG&E's application for
28 rehearing of the Accounting True-Up was denied by the Commission on January 2, 2002. On

1 February 4, 2002, PG&E filed a Petition for Writ of Review of this Decision in the Court of
2 Appeals of California, First Appellate District, Case No. A097671. That Petition is currently
3 pending before the Court of Appeal.

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

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

16 **13. Further Extension of Exclusivity Denied.**

17 On December 19, 2001, PG&E filed its second motion to extend exclusivity until
18 June 30, 2002. On January 8, 2002 the Commission, among others, objected to PG&E's request
19 for a further extension (the "Exclusivity Objection"). In its Exclusivity Objection, the
20 Commission argued, among other things, that PG&E failed to demonstrate the requisite "cause"
21 required for an extension of exclusivity and sought approval to file an alternate plan of
22 reorganization.

23 On January 16, 2002, the Bankruptcy Court conducted a hearing on PG&E's motion to
24 further extend exclusivity. At the conclusion of the hearing, the Bankruptcy Court (a) granted
25 PG&E's motion except with respect to the Commission and (b) ordered the Commission to file a
26 term sheet summarizing the critical elements of its proposed alternative plan. The Commission
27 filed its term sheet on February 13, 2002. After a further hearing on the Commission's
28 Exclusivity Objection and the term sheet, the Bankruptcy Court, on February 27, 2002, denied

1 PG&E's motion to extend exclusivity and authorized the Commission to file its Plan and
2 Disclosure Statement no later than April 15, 2002.

3 **14. Omnibus Motions.**

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

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

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

19 **16. QF Agreements.**

20 As of the Petition Date, PG&E was party to approximately 330 power purchase
21 agreements with various QFs. Almost immediately after the Petition Date, several of the QFs
22 filed motions requesting various forms of relief, including: (a) relief from the automatic stay to
23 permit the QFs to "suspend" deliveries of energy to PG&E and sell into the market, pending
24 PG&E's assumption or rejection of the QF power purchase agreements, (b) an order requiring
25 PG&E to decide immediately whether to assume or reject the power purchase agreements, (c) an
26 order requiring PG&E to pay "market rates" for energy delivered under the power purchase
27 agreements, rather than at the contract rate, and (d) an order requiring PG&E to "pre-pay" for
28 deliveries under the power purchase agreements. In all, approximately 40 QFs ultimately filed

1 motions requesting some or all of the relief described above. PG&E opposed these motions on a
2 number of grounds.

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

15 In the following two-month period, this transaction served as a prototype for PG&E’s
16 resolution of similar disputes (and the Bankruptcy Court’s approval thereof) with over 200 other
17 QFs, representing over \$800 million of pre-petition obligations and approximately 16,000 GWh
18 of generation. Other than PG&E’s agreement to commence making relatively small cure
19 payments on July 15, 2003 (approximately two years after assumption was approved by the
20 Bankruptcy Court), the settlements were on the same essential terms as the Calpine QF
21 settlement. According to PG&E, the effect of these settlements is to provide certainty to PG&E
22 and its customers for the delivery of energy on favorable terms, as well as the favorable
23 resolution of numerous contested matters.

24 The assumption agreements left the issue of the interest rate to be applied to the
25 prepetition payables to be resolved either through additional negotiation by PG&E and the QFs
26 or, if no agreement could be reached, through PG&E’s plan confirmation process. PG&E has
27 recently concluded negotiations with several of its larger QFs, including the Calpine QFs and the
28

1 GWF Group, resolving those issues. The agreements are set forth in supplemental agreements
2 and modify the assumption agreements by:

- 3 • setting the interest rate for pre-petition payables at five percent (5%) per annum;
- 4 • providing for a “catch up payment” of all accrued and unpaid interest (calculated
5 from the date of default through December 31, 2001) to be paid on December 31,
6 2001; and
- 7 • providing for an accelerated payment of the principal amount of the pre-petition
8 payables (and interest thereon) in twelve equal monthly payments of principal (and
9 interest thereon) commencing on December 31, 2001, and continuing through
10 November 30, 2002, or, in the event that the PG&E Plan’s proposed effective date
11 occurs before the last monthly payment is made, the remaining unpaid principal and
12 accrued but unpaid interest thereon, shall be paid in full the PG&E Plan’s proposed
13 effective date.

14 The Bankruptcy Court granted PG&E’s Motion to Approve Compromise of Controversy
15 and approved the supplemental agreements with the Calpine QFs and the GWF Group, as well as
16 numerous other QFs, at a hearing on December 21, 2001. In addition, the Bankruptcy Court
17 established a procedure by which PG&E can seek approval of similar supplemental agreements
18 by stipulation instead of notice and motion. As of the date of the PG&E Proponents’ most recent
19 disclosure statement, PG&E has entered into supplemental agreements with approximately 104
20 of its QFs with total Administrative Expense Claims of \$916,467,852.40 in the aggregate.
21 Pursuant to the terms of the supplemental agreements, PG&E is paying these claims in equal
22 monthly installments over the course of the calendar year 2002.

23 **17. PG&E’s Support Agreement with the Committee.**

24 Prior to the filing of the PG&E Plan, the Committee participated with the PG&E
25 Proponents in the negotiation and development of their plan. On September 19, 2001, PG&E,
26 the Parent and the Committee entered into a Support Agreement (the “Committee Support
27 Agreement”) pursuant to which the parties agreed to take all commercially reasonable actions
28 and use their respective best efforts to achieve timely confirmation and consummation of a plan
consistent with the term sheet attached as an exhibit to the Committee Support Agreement. The
Committee has acknowledged that the PG&E Plan is consistent with such term sheet. Under the
terms of the Committee Support Agreement, so long as no Support Termination Event, as
defined below, has occurred, the Committee shall: (a) fully support the PG&E Plan, (b) advocate

1 in all material respects the plan and its attendant restructuring transactions, (c) recommend that
2 all parties entitled to vote do so in favor of the PG&E Plan, (d) advocate and support all
3 approvals and required orders concerning such plan and the restructuring transactions,
4 (e) support the extension of PG&E's exclusivity under section 1121 of the Bankruptcy Code, and
5 (f) respond affirmatively to all inquiries concerning the PG&E Plan and the restructuring
6 transactions.

7 As consideration for the Committee's support of the PG&E Plan, the PG&E Proponents
8 agreed to include certain provisions beneficial to unsecured creditors in the plan, including
9 payment of pre-petition interest and Post-Petition Interest. The PG&E Proponents have also
10 made a commitment to take commercially reasonable actions prior to the proposed effective date
11 of the PG&E Plan to ensure that the debt securities issued or sold under PG&E Plan will trade at
12 or above par upon issuance, grant reasonable observation rights of the Committee in the process
13 of issuing the debt securities and pay placement fee to each creditor in PG&E Plan Classes 5, 6,
14 7 and 9 (based on the face value of notes or other non-cash consideration to be paid to the
15 holders of claims in all classes). According to PG&E, the placement fee represents an expense
16 PG&E would incur if it were selling its debt securities outside of bankruptcy.

17 The Committee's obligations under the Committee Support Agreement are conditioned
18 upon the satisfaction or waiver of the following conditions: (a) that the PG&E Proponents make
19 all necessary filings with the FERC by December 31, 2001, (b) that the Bankruptcy Court enter a
20 confirmation order on the PG&E Plan by June 30, 2002, (c) that the PG&E Proponents obtain
21 indicative ratings of investment grade from S&P and Moody's for all debt securities to be issued
22 or sold under the PG&E Plan, (d) that the PG&E Proponents receive all necessary regulatory
23 approvals for the PG&E Plan by December 31, 2002, (e) that the PG&E Proponents resolve any
24 tax issues raised by the PG&E Plan in a manner reasonably satisfactory to the Committee by
25 December 31, 2002, and (f) that the PG&E Plan must become effective by March 31, 2003.

26 The obligations of the parties under the Committee Support Agreement will terminate
27 upon the occurrence of a "Support Termination Event," if not otherwise waived by the applicable
28 party, which means any of the following: (a) a breach of the Committee Support Agreement by

1 one or more of the parties thereto, including, but not limited to, the failure to either satisfy or
2 obtain the waiver of any condition set forth therein, or (b) a material adverse change in
3 (i) PG&E's prospects, business, assets, operations, liabilities or financial performance, (ii) the
4 prospects for timely completion of PG&E's reorganization as contemplated in the PG&E Plan,
5 (iii) the prospects for the sale at par of all debt securities issued or sold under the PG&E Plan, or
6 (iv) the Chapter 11 Case.

7 **18. Sempra Settlement Agreement.**

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

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

23 On November 5, 2001, PG&E entered into a settlement agreement with Sempra which,
24 subject to Bankruptcy Court approval, settles all the outstanding disputes with Sempra under the
25 Sempra Gas Agreements and certain Orders of the Department of Energy, and reserves
26 resolution of certain disputes regarding electricity services between Sempra and PG&E. The
27 settlement agreement provides, among other things, that (a) all disputes between Sempra and
28 PG&E in relation to the Sempra Gas Agreements and orders of the Department of Energy are

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

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

12 **19. Claims Management Motions.**

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

1 Parent or any affiliate of the Parent, any officer or director of PG&E or the Parent, or any
2 member of the Committee.

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

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

18 Pursuant to an order dated September 7, 2001, the Bankruptcy Court approved a
19 stipulation between PG&E, on the one hand, and the Letter of Credit Issuing Banks and the
20 Banks, on the other hand (the "Class 4e Stipulation"). The Class 4e Stipulation provides, among
21 other things, that, in exchange for the Letter of Credit Issuing Banks and the Banks agreeing to
22 continue to maintain and reinstate the Letters of Credit and to forbear from declaring any
23 defaults thereunder, any Post-Petition Interest drawings under the Letters of Credit will
24 constitute Allowed Claims in favor of the Letter of Credit Issuing Banks and the Banks. By
25 motion dated March 20, 2002, PG&E requested Bankruptcy Court approval of a stipulation
26 between it and the Letter of Credit Issuing Banks and the Banks (the "LC Bank Agreement")
27 extending the terms of the Class 4e Stipulation. The Court granted the motion at a hearing held
28

1 on April 9, 2002. See Section IV.B.11 of this Disclosure Statement for a description of the
2 treatment of Class 4e under the Plan.

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

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

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

13 On February 7, 2002, the Bankruptcy Court issued its Memorandum Decision Regarding
14 Preemption and Sovereign Immunity (the "February 7 Decision").²⁵ The following summary
15 reflects the Commission's interpretation of the February 7 Decision. PG&E may dispute
16 portions of this description.

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

24 The Bankruptcy Court further indicated that certain amendments to the December 19,
25 2001 version of the PG&E Proponents' plan and disclosure statement were required to

26 _____
27 ²⁵ "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 www.canb.uscourts.gov.

1 “overcome the [State’s] sovereign immunity defense.” *Id.* Alternatively, in the absence of such
2 amendments, the PG&E Proponents “will have to prove that there has been a waiver of sovereign
3 immunity[,]” in which case, “the Disclosure Statement must be amended to describe why
4 Proponents believe sovereign immunity has been waived.” *Id.* at 3-4.

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

26 On the issue of the Commission’s and the State of California’s sovereign immunity, the
27 Bankruptcy Court found that the PG&E Plan violates the Commission’s and the State’s
28 sovereign immunity absent a waiver thereof or certain plan amendments which the Commission

1 does not believe have been made. The Bankruptcy Court recognized that an unresolved issue
2 was presented by the PG&E Proponents' arguments that the Commission and the State have
3 waived their sovereign immunity by their participation to date in the Chapter 11 Case and
4 ordered that such issue be tried at confirmation. The Commission disagrees with the PG&E
5 Proponents' assertions of waiver.

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

14 **23. 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 holders of undisputed Claims entitled to interest under the PG&E Plan on a
21 quarterly basis, commencing either ten days after approval of the PG&E Disclosure Statement
22 (with respect to Allowed Class 5 Claims for Senior Indebtedness and Allowed Claims in
23 Classes 4c, 4f, 4g and 11), or on or before July 30, 2002 (with respect to the remaining Allowed
24 Class 5 Claims and Allowed Claims in Classes 1, 2, 6, 7 and 10); and (c) authorizing PG&E to
25 pay the fees and expenses of the holders of Senior Indebtedness who are parties to the Settlement
26 and Support Agreement, indenture trustees, and administrative banks and other paying agents on
27 a current basis.

1 Pursuant to the Settlement and Support Agreement, the principal amount of the Class 5
2 Claims held by the holders of Senior Indebtedness who are parties thereto will be fixed, and
3 interest will accrue and be paid at certain agreed-upon rates, but such accrual and payment at the
4 agreed-upon rates may cease and prior payments of interest may be recharacterized under certain
5 circumstances, including a determination by the Bankruptcy Court that PG&E is insolvent, the
6 confirmation of a plan of reorganization other than the PG&E Plan,²⁶ and certain breaches of the
7 Settlement and Support Agreement by such holders. The holders of Senior Indebtedness who are
8 parties to the Settlement and Support Agreement have agreed to vote their PG&E Plan Class 5
9 Claims in favor of the PG&E Plan. However, nothing in the Settlement and Support Agreement
10 prevents such parties from voting to accept, or expressing a preference for, the Commission's
11 Plan.

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

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

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

21 Pursuant to the February 7 Decision, on February 21, 2002, the PG&E Proponents filed
22 with the Bankruptcy Court a statement indicating that they intended to amend the PG&E Plan
23 and Disclosure Statement to (a) eliminate express preemption provisions so they can proceed to a
24 confirmation hearing where they intend to show that implied preemption of specified statutes is
25 available under the circumstances to confirm the PG&E Plan and (b) state with specificity the
26 facts that the PG&E Proponents believe demonstrate that the State and the Commission have

27 ²⁶ As noted on page 17 hereof, the Commission does not provide for any such recharacterization under the
28 Commission's Plan.

1 waived their sovereign immunity, and, in the event the Bankruptcy Court finds that such
2 immunity has been waived, provide for declaratory and injunctive relief against the State and the
3 Commission. The PG&E Proponents further stated that they intend to seek an expedited
4 interlocutory appeal of an order denying approval of the PG&E Disclosure Statement on the
5 grounds that the Bankruptcy Court erred in the February 7 Decision finding that express
6 preemption is not applicable to the PG&E Plan. The PG&E Proponents also stated that, upon
7 approval of the PG&E Disclosure Statement, they intend to proceed with the solicitation of
8 consents and confirmation of their plan while the interlocutory appeal is pending. At a hearing
9 held on February 27, 2002, the Bankruptcy Court granted the Commission and others the right to
10 file a single brief to argue their position that the February 7 Decision is a non-appealable
11 interlocutory decision. The Commission and the City and County of San Francisco (the
12 “CCSF”) (joined by the State) each filed briefs arguing this position on March 14, 2002.

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

27 On or about March 29, 2002, the Commission and CCSF served the PG&E Proponents
28 with a Notice of Cross-Appeal from the March 18 Order. In addition, on or about April 1, 2002,

1 the California Attorney General’s Office filed a separate Notice of Cross-Appeal from the
2 March 18 Order on behalf of a number of governmental entities. All of these parties identified
3 for cross-appeal the following two issues: (1) whether the Bankruptcy Court erred in entering
4 judgment under Rule 54(b) of the Federal Rules of Civil Procedure concerning its ruling on
5 express preemption; and (2) whether it was an abuse of discretion under Rule 54 for the
6 Bankruptcy Court to determine that there was not just reason to delay the entry of judgment on
7 its express preemption ruling. In addition, the Commission and CCSF also identified as an issue
8 for cross-appeal the question of whether the March 18 Order complies with the requirements of
9 Rule 58 of the Federal Rules of Civil Procedure.

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

11 The Commission adopted Decision (D) 02-04-106 (the “URG Decision”) on April 4,
12 2002, which among other things, calls for an increase in PG&E’s rate base. This URG Decision
13 is the first significant step to returning the State’s investor-owned electric utilities’ electric
14 generation to a cost-of-service ratemaking basis. Because of the complications surrounding the
15 determination of an accurate cost basis for the utilities’ retained generation, the Commission
16 adopted an interim revenue requirement based on estimated forecasts. The correct cost basis
17 must fully recognize the effects of the final accounting treatment for retained generation under
18 the transition cost recovery process. This means that the rate base must be updated to account
19 for the accelerated depreciation of generation assets. This accelerated depreciation was
20 implemented to allow the utilities the opportunity to recover costs that might become
21 uneconomic in the transition of the electric industry to a competitive wholesale market. Under
22 the URG Decision, PG&E, and the other utilities, are ordered to make compliance filings
23 intended to establish the correct remaining book value of their generation assets and the
24 companies are authorized by the URG Decision to recover their actual costs of service for 2002.
25 The revenue requirement adopted in the URG Decision is subject to balancing account treatment
26 so that the utilities will refund any over-collection if actual costs are lower, or be entitled to
27 recover any shortfall if actual costs are higher than the interim revenue requirements.

1 **VI. THE PLAN OF REORGANIZATION**

2 **A. Overview**

3 As described herein, the Commission has developed a Plan designed to restore the
4 Debtor's financial viability and provide for the payment in full of all Allowed Claims. In short,
5 the Commission's Plan seeks to provide the Debtor with the means to repay in full in Cash (with
6 interest) the short term indebtedness incurred by the Debtor during California's energy crisis.
7 Much of the Debtor's long term indebtedness would remain outstanding and be satisfied through
8 the reinstatement of such Allowed Claims. Unlike the PG&E Plan, the Commission's Plan is not
9 dependent upon the disaggregation of the Debtor's business and operations and the wholesale
10 dislocation of state and local laws and regulations through time-consuming and expensive
11 litigation. Under the Commission's Plan, the Debtor will continue to be regulated by the
12 Commission.

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

24 The following is a description of the salient provisions of the Commission's Plan,
25 including the treatment of Allowed Claims and the means of implementing the Commission's
26 Plan.

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

2 The Commission's Plan classifies Claims and Equity Interests separately and provides
3 different treatment of different Classes of Claims and Equity Interests in accordance with the
4 provisions of the Bankruptcy Code. As described more fully below, the Commission's Plan
5 provides, separately for each Class, that holders of certain Claims and Equity Interests will
6 receive various amounts and types of consideration, thereby giving effect to different rights of
7 holders of Claims and Equity Interests in each Class.

8 Pursuant to the Commission's Plan, the Debtor will either pay in full in Cash, reinstate, or
9 satisfy in the ordinary course of business, all Allowed Claims. Allowed Claims shall include the
10 amounts owed with respect to the period prior to the Petition Date and applicable interest
11 accrued and unpaid during such period. Except as otherwise provided herein, holders of
12 Allowed Claims will be paid in Cash accrued and unpaid Post-Petition Interest on such Allowed
13 Claims. Except as otherwise provided under the Plan, including Exhibit 1 thereto, any Post-
14 Petition Interest shall be calculated and paid at the lowest non-default rate in accordance with the
15 terms specified in the applicable statute, indenture or instrument governing such Allowed Claim
16 or, if no such instrument exists, or if the applicable instrument does not specify a non-default rate
17 of interest, Post-Petition Interest will be calculated and paid on such Allowed Claim at the
18 Federal Judgment Rate. Except as provided under applicable non-bankruptcy law, Post-Petition
19 Interest will not be paid on the following Allowed Claims: Administrative Expense Claims,
20 Professional Compensation and Reimbursement Claims, Environmental, Fire Suppression, Tort
21 and FERC License Claims, Chromium Litigation Claims and Workers' Compensation Claims.

22 Pursuant to an Order entered by the Bankruptcy Court on April 9, 2001 authorizing the
23 interim use of cash collateral, the Debtor has paid and will continue to pay Post-Petition Interest
24 to the holders of Allowed Claims in Classes 3 and 4a.²⁷ In addition, pursuant to Section 4.2(a) of
25 the Commission's Plan, the Debtor will make payments of Post-Petition Interest that is accrued
26 and is unpaid on and after the Initial Calculation Date through the last day of the last calendar

27 ²⁷ 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 quarter ending prior to the Effective Date, in arrears, in quarterly installments (or in the case of
2 such first quarter following the Initial Calculation Date, such portion of a quarter) as follows:
3 (x) on the first Business Day of the next calendar quarter to the holders of Allowed Class 5
4 Claims for Senior Indebtedness and the holders of Allowed Claims in Classes 4c, 4f, 4g and 11,
5 and (y) within 30 days following the end of the calendar quarter, to the remaining holders of
6 Allowed Class 5 Claims and the holders of Allowed Claims in Classes 1, 2, 6, 7 and 10. Any
7 Post-Petition Interest that accrues during the period commencing on the first day of the calendar
8 quarter in which the Effective Date occurs and ending on the Effective Date will be paid on the
9 Effective Date.

10 Pursuant to the Settlement Order and the Settlement and Support Agreement, the accrual
11 and payment of a Post-Petition Interest will terminate if (i) the Debtor is determined by a Final
12 Order of the Bankruptcy Court to be insolvent (on a balance sheet basis), with such interest
13 accrual termination effective as of the date of insolvency, as determined by the Bankruptcy
14 Court, (ii) upon conversion of the Chapter 11 Case to a case under chapter 7; provided that there
15 is not a subsequent determination of the Bankruptcy Court that there are assets of sufficient value
16 to pay Post-Petition Interest on the applicable Allowed Claims, or (iii) under circumstances that
17 would allow for recharacterization, as described above on page 17 of the Disclosure Statement.

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

1 **1. Administrative Expense Claims.**

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

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

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

27 Professional Compensation and Reimbursement Claims are Administrative Expense
28 Claims for the compensation of professionals and reimbursement of expenses incurred by such

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

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

22 **3. Priority Tax Claims.**

23 Priority Tax Claims are Claims for taxes entitled to priority in payment under section
24 507(a)(8) of the Bankruptcy Code.

25 Pursuant to the Commission's Plan, except to the extent that a holder of an Allowed
26 Priority Tax Claim has been paid by the Debtor prior to the Effective Date or agrees to a
27 different treatment, each holder of an Allowed Priority Tax Claim shall receive, in full and
28 complete settlement, satisfaction and discharge of its Allowed Priority Tax Claim, including

1 Post-Petition Interest, Cash in an amount equal to such Allowed Priority Tax Claim on the later
2 of the Effective Date and the date such Priority Tax Claim becomes an Allowed Priority Tax
3 Claim, or as soon as practicable thereafter.

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

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

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

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

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

19 Class 2 is unimpaired under the Commission's Plan. Pursuant to the Plan, except to the
20 extent that a holder of an Allowed Other Secured Claim has been paid by the Debtor prior to the
21 Effective Date or agrees to a different treatment, at the sole option of the Debtor, the Claims of
22 each holder of an Allowed Other Secured Claim shall be (a) reinstated and rendered unimpaired
23 in accordance with section 1124(2) of the Bankruptcy Code, or (b) paid Cash in an amount equal
24 to such Allowed Other Secured Claim, including any interest on such Allowed Other Secured
25 Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant
26 to section 506(b) of the Bankruptcy Code.

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

2 Class 3 includes (a) Secured Claims against the Debtor evidenced by (a) 6.250% First
3 and Refunding Mortgage Bonds Series 93C due August 1, 2003, (b) 6.250% First and Refunding
4 Mortgage Bonds Series 93G due March 1, 2004, (c) 5.875% First and Refunding Mortgage
5 Bonds Series 93E due October 1, 2005, (d) 6.250% First and Refunding Mortgage Bonds Series
6 81B due August 1, 2011, (e) 8.800% First and Refunding Mortgage Bonds Series 91A due May
7 1, 2024, (f) 8.375% First and Refunding Mortgage Bonds Series 92B due May 1, 2025,
8 (g) 8.250% First and Refunding Mortgage Bonds Series 92D due November 1, 2022, (h) 7.250%
9 First and Refunding Mortgage Bonds Series 93A due March 1, 2026, (i) 7.250% First and
10 Refunding Mortgage Bonds Series 93D due August 1, 2026, (j) 6.750% First and Refunding
11 Mortgage Bonds Series 93F due October 1, 2023, and (k) 7.050% First and Refunding Mortgage
12 Bonds Series 93H due March 1, 2024, each issued by the Debtor under a First and Refunding
13 Mortgage under which BNY Western Trust Company was trustee on the Petition Date, together
14 with any Matured and Unpresented First and Refunding Mortgage Bonds, provided that the
15 Debtor is not waiving any rights or claims it may have under applicable non-bankruptcy law
16 against any holder of any Matured and Unpresented First and Refunding Mortgage Bond or any
17 other party with respect thereto, and (b) Secured Claims against the Debtor evidenced by the
18 Mortgage Bonds that secure the Mortgage Backed PC Bond Claims.

19 Class 3 is unimpaired under the Commission's Plan. Pursuant to the Commission's Plan,
20 the First and Refunding Mortgage Bonds and each of the First and Refunding Mortgage Bond
21 Documents will remain outstanding and will be reinstated and rendered unimpaired in
22 accordance with section 1124(2) of the Bankruptcy Code. On the Effective Date, each holder of
23 an Allowed Secured Claim Relating to First and Refunding Mortgage Bonds will be paid Cash in
24 an amount equal to any and all accrued and unpaid interest owed to such holder in respect of
25 such First and Refunding Mortgage Bond in accordance with the terms of the respective First
26 and Refunding Mortgage Bond, to and including the last scheduled interest payment date
27 preceding the Effective Date. All unpaid fees and expenses due and owing under the applicable
28 series of First and Refunding Mortgage Bonds shall also be paid in Cash.

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

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

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

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

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

20 Class 4b is unimpaired under the Commission's Plan. Pursuant to the Commission's
21 Plan, the MBIA Insured PC Bonds will remain outstanding. The Loan Agreement and the PC
22 Bond Documents related to the MBIA Insured PC Bonds will be reinstated and rendered
23 unimpaired in accordance with section 1124(2) of the Bankruptcy Code. On the Effective Date,
24 each holder of a MBIA Insured PC Bond will be paid Cash in an amount equal to any and all
25 accrued and unpaid interest owed to such holder with respect to such MBIA Insured PC Bond in
26 accordance with the terms thereof to and including the last scheduled interest payment date
27 preceding the Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due
28 and owing under the Loan Agreement will be paid in Cash.

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

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

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

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

19 Letter of Credit Backed PC Bond Claims are the Claims against the Debtor by the Issuer,
20 Bond Trustee and the holders of Letter of Credit Backed PC Bonds for all amounts due and
21 owing by the Debtor under the Loan Agreements and each of the other PC Bond Documents
22 executed by the Debtor in connection with the issuance of each series of Letter of Credit Backed
23 PC Bonds.

24 Class 4d is unimpaired under the Commission's Plan. Pursuant to the Commission's
25 Plan, each series of Letter of Credit Backed PC Bonds will remain outstanding. Each of the
26 Loan Agreements and the PC Bond Documents related to the Letter of Credit Backed PC bonds
27 will be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy
28 Code. Each holder of a Letter of Credit Backed PC Bond will be paid in Cash in an amount

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

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

6 Letter of Credit Bank Claims consist of (a) the contingent Claims of each Letter of Credit
7 Issuing Bank and the applicable Banks, if any, with respect to payments which may become due
8 by the Debtor under their respective Reimbursement Agreements with the Debtor in an amount
9 equal to the outstanding Stated Amount of each of the Letters of Credit, and (b) the Claims of the
10 Letter of Credit Issuing Banks and the applicable Banks, if any, for any and all accrued and
11 unpaid amounts due by the Debtor under their respective Reimbursement Agreements, including
12 amounts due as reimbursement of amounts paid by each Letter of Credit Issuing Bank under its
13 respective Letter of Credit to the Bond Trustee for the payment of interest on the related series of
14 Letter of Credit Backed PC Bonds.

15 Class 4e is impaired under the Commission's Plan. To the extent that the Debtor has not
16 reimbursed the applicable Letter of Credit Issuing Bank and the applicable Banks, if any, for
17 drawings made on the related Letter of Credit with respect to the payment of interest on the
18 related series of Letter of Credit Backed PC Bonds to the extent provided in the respective
19 Reimbursement Agreement, each holder of an Allowed Letter of Credit Bank Claim will be paid
20 Cash in an amount equal to its pro rata share of the aggregate amount paid by the respective
21 Letter of Credit Issuing Bank to the respective Bond Trustee under the terms of the applicable
22 Letter of Credit with respect to the payment of the interest on the Letter of Credit Backed PC
23 Bonds to which such Letter of Credit Bank Claim relates during the period from the Petition
24 Date to and including the last scheduled interest payment date on such Letter of Credit Backed
25 PC Bonds preceding the Effective Date. Each holder of an Allowed Letter of Credit Bank Claim
26 will also be paid Cash in an amount equal to its pro rata share of all other amounts then due and
27 owing to the respective Letter of Credit Issuing Bank and the applicable Banks, if any, under the
28 terms of the respective Reimbursement Agreement (other than for reimbursement of drawings on

1 the respective Letter of Credit) through the Effective Date, including, without limitation, interest
2 at the interest rate due on such amounts to the extent provided in the respective Reimbursement
3 Agreements, and any due and owing applicable Forbearance, Extension and Letter of Credit Fees
4 (as hereinafter defined) through the Effective Date, and the reasonable fees and expenses of
5 unrelated third party professionals retained by the Letter of Credit Issuing Banks, to the extent
6 incurred subsequent to the Petition Date in the Chapter 11 Case, which with respect to each
7 Letter of Credit Issuing Bank for the period prior to December 1, 2001, to the extent payment of
8 such fees and expenses are approved by the Bankruptcy Court prior to the Confirmation Date
9 and such payment is made prior to the Confirmation Date, shall be in an aggregate amount equal
10 to the amount mutually agreed to by the Debtor and each Letter of Credit Issuing Bank. The
11 interest rate on each Letter of Credit Bank Claim, interest payment start date and interest
12 payment intervals are set forth on Exhibit 1 to the Plan.

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

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

23 On the Effective Date, to the extent that the Debtor has not reimbursed the
24 applicable Letter of Credit Issuing Bank and the applicable Banks, if any, for drawings made on
25 the related Letter of Credit with respect to the payment of interest on the related series of Letter
26 of Credit Backed PC Bonds to the extent provided in the respective Reimbursement Agreement,
27 each holder of an Allowed Letter of Credit Bank Claim will receive Cash in an amount equal to
28

1 its pro rata share of the interest portion of the purchase price of the tendered Letter of Credit
2 Backed PC Bonds paid out of a draw on the respective Letter of Credit.

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

9 -or-

10 **(b) Remarketing Option:** The respective series of Letter of Credit Backed PC
11 Bonds shall be called for mandatory tender in accordance with the terms of the respective
12 Indenture and shall be purchased by the respective Bond Trustee through a draw on the related
13 Letter of Credit. The Debtor will then either (1) provide or cause to be provided to the respective
14 Bond Trustee an alternative “Credit Facility” pursuant to the terms of the respective Indenture in
15 lieu of the existing Letter of Credit, or (2) shall obtain the consent of the Issuer to remarket the
16 respective series of Letter of Credit Backed PC Bonds without credit enhancement in accordance
17 with the terms of the applicable Indenture. In either event the respective series of Letter of
18 Credit Backed PC Bonds shall be remarketed, at par, in accordance with the terms of the
19 Indenture and the other PC Bond Documents.

20 In such event, on the Effective Date, the Letter of Credit Issuing Bank will receive
21 (1) from the Debtor, to the extent that the Debtor has not reimbursed the applicable Letter of
22 Credit Issuing Bank and the applicable Banks, if any, for drawings made on the related Letter of
23 Credit with respect to the payment of interest on the related series of Letter of Credit Backed PC
24 Bonds to the extent provided in the respective Reimbursement Agreement, Cash in an amount
25 equal to the interest portion of the purchase price of the tendered Letter of Credit Backed PC
26 Bonds paid out of a draw on the respective Letter of Credit, and (2) from the Bond Trustee, an
27 amount equal to the principal portion of the purchase price of the tendered Letter of Credit
28 Backed PC Bonds paid out of a draw on the respective Letter of Credit, which amount shall be

1 paid from the remarketing proceeds of the respective Letter of Credit Backed PC Bonds in
2 accordance with the terms of the respective Indenture.

3 -or-

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

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

15 (2) If (a) the Letter of Credit Issuing Bank maintains its Letter of Credit outstanding
16 in its initial stated amount through the Effective Date and does not provide the Trustee with
17 notice of default under its Reimbursement Agreement or non-reinstatement of its Letter of Credit
18 or take any other action which would result in the redemption, either in whole or in part, of the
19 outstanding Letter of Credit Backed PC Bonds without the prior written consent of the Debtor,
20 and (b) the Letter of Credit Issuing Bank and each of the related Banks, if any, take all action
21 reasonably required by the Debtor to keep the Letter of Credit Backed PC Bonds outstanding and
22 to facilitate either the Purchase Option or the Remarketing Option, as applicable, including,
23 without limitation, giving direction to the Trustee, providing commercially reasonable
24 indemnification to the Issuer and Trustee, and using their best efforts to consummate the
25 proposed amendments to the terms of the Letter of Credit Backed PC Bonds as described herein
26 and to consummate either the Purchase Option or the Remarketing Option as applicable, so as to
27 maintain for the Debtor the benefits of the tax-exempt financing provided by the related series of
28 Letter of Credit Backed PC Bonds, then in the event that the Letter of Credit Backed PC Bonds

1 are redeemed on or prior to the Effective Date for reasons beyond the control of the Letter of
2 Credit Issuing Bank, the Letter of Credit Issuing Bank will receive Cash in an amount equal to
3 the principal portion of the redemption price of the redeemed Letter of Credit Backed PC Bonds
4 paid out of a draw on the respective Letter of Credit.

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

16 However, pursuant to the terms of the LC Bank Agreement among the Debtor and each
17 of the Letter of Credit Issuing Banks, the Letter of Credit Issuing Banks have agreed, among
18 other things and subject to certain conditions, to (a) maintain each of the Letters of Credit
19 outstanding in the stated amounts set forth on Exhibit 2 to the Plan, (b) not provide the Trustee
20 with notice of any default under any of the Reimbursement Agreements or non-reinstatement of
21 any of the Letters of Credit or take any other action which would result in the mandatory tender
22 or redemption, either in whole or in part, of any of the outstanding Letter of Credit Backed PC
23 Bonds without the prior written consent of the Debtor, and (c) extend the expiration date of each
24 of the Letters of Credit to the first business day subsequent to the one year anniversary of the
25 existing expiration date of each Letter of Credit existing as of the Petition Date. In consideration
26 for such forbearance and other actions by the Letter of Credit Issuing Banks, the Debtor has
27 agreed, among other things and subject to certain conditions, to pay to each Letter of Credit
28 Issuing Bank, (a) during the period from and after the date such payments are approved by the

1 Bankruptcy Court and continuing until the Confirmation Date, quarterly, in arrears, the Letter of
2 Credit fee as set forth in the respective Reimbursement Agreement (the "Original Letter of Credit
3 Fee"), together with an amount equal to the positive difference, if any, of an amount per annum
4 equal to two percent (2%) of the Stated Amount of the Letter of Credit, less the Original Letter
5 of Credit Fee, which total fee accrues from and after December 1, 2001 and until the
6 Confirmation Date, and has been payable on the same dates as are set forth for payment of Letter
7 of Credit Fees in the applicable Reimbursement Agreement, and (b) during the period from and
8 after the Confirmation Date and continuing until the Effective Date, quarterly, in arrears, the
9 Original Letter of Credit Fee, together with an amount equal to the positive difference, if any, of
10 an amount per annum equal to three percent (3%) of the Stated Amount of the Letter of Credit,
11 less the Original Letter of Credit Fee, which total fee accrues from and after the Confirmation
12 Date until the Effective Date, and shall be payable on the same dates as are set forth for payment
13 of Letter of Credit fees in the applicable Reimbursement Agreement (the Original Letter of
14 Credit Fee together with such additional sums being hereinafter referred to collectively as the
15 "Forbearance, Extension and Letter of Credit Fees"); provided, however, that in the event the LC
16 Bank Agreement has not been timely approved by the Court, then in lieu of the payments set
17 forth in clauses (1) and (2) of Section 4.10(b)(v) of the Commission's Plan, as described above,
18 the Debtor has agreed, subject to certain conditions, to pay to each of Letter of Credit Issuing
19 Bank during the period from and after the Confirmation Date and continuing until the Effective
20 Date, quarterly, in arrears, its Original Letter of Credit Fee, together with an amount equal to the
21 positive difference, if any, of an amount per annum, equal to three (3%) percent of the Stated
22 Amount of its Letter of Credit, less its Original Letter of Credit Fee, which total fee shall accrue
23 from and after December 1, 2001 until the Effective Date, and shall be payable on the same dates
24 as are set forth for payment of Letter of Credit fees in the applicable Reimbursement Agreement.
25 Additionally, on the Confirmation Date, pursuant to the terms of the LC Bank Agreement, the
26 Debtor has agreed, among other things and subject to certain conditions, to pay to Deutsche
27 Bank AG New York Branch an agency fee in the amount of \$250,000.

28

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. 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 interest owing to such holder in respect of the Reimbursement Obligation or applicable portion
26 thereof owing to such holder at a fluctuating rate of interest in accordance with the terms of the
27 applicable Reimbursement Agreement, and (ii) all other amounts (other than the Reimbursement
28 Obligation or applicable portion thereof) due and owing to the respective holder of an Allowed

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

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

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

22 Class 4g is unimpaired under the Commission's Plan. Pursuant to the Commission's
23 Plan, each series of Treasury PC Bonds, and the Loan Agreements and PC Bond Documents
24 related thereto, shall remain outstanding. Each of the Loan Agreements and PC Bond
25 Documents related to the Treasury PC Bonds will be reinstated and rendered unimpaired in
26 accordance with section 1124(2) of the Bankruptcy Code. On the Effective Date, each holder of
27 a Allowed Treasury PC Bond Claim will be paid in Cash equal to any and all accrued and unpaid
28 interest owed to such holder with respect of such Treasury PC Bond in accordance with the terms

1 thereof to and including the last scheduled interest payment date preceding the Effective Date.
2 All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the applicable
3 Loan Agreement will also be paid in Cash.

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

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

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

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

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

20 The Debtor has represented that the aggregate amount of ISO, PX and Generator Claims
21 filed is materially higher than the amount the Debtor believes is allowable under the Plan. The
22 Debtor has indicated that there are at least \$4 billion in duplicate ISO, PX and Generator Claims
23 resulting from clerical errors, identical Claims filed by the PX and electric power generators, and
24 amendments to Claims filed without withdrawing the original Claim. In addition to these
25 duplicates, the amount of Claims filed by electric power generators, the PX and the ISO for
26 supplying power (without allocating a certain portion of such amount to the Debtor) is \$3.9
27 billion. The Debtor's share of this amount is \$1.7 billion according to the account summaries
28 received by the Debtor as of April 3, 2002 from the PX for the period through January 17, 2001.

1 Many Claims were also filed relating to services provided after January 17, 2001, the latest date
2 on and after which the applicable FERC decisions preclude the imposition of such costs on the
3 Debtor. Also, the Debtor has indicated that it expects to recover at least \$400 million in refunds
4 through the FERC's determination of just and reasonable rates, subject to further hearings and
5 appeals. In addition, one generator has agreed to a pre-petition offset of its Claim in the amount
6 of \$200 million. Thus, the Debtor has estimated that the allowable amount of ISO, PX and
7 Generator Claims is approximately \$1.1 billion. All ISO, PX and Generator Claims are Disputed
8 Claims.²⁸

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

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

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

18
19
20 ²⁸ At or before the Confirmation Hearing, the Debtor has stated that it intends to propose a means for
21 establishing (a) the aggregate amount of Allowed Claims for purposes of evaluating the feasibility of the
22 Plan and (b) the aggregate amount necessary adequately to fund a reserve for Disputed Claims. The Debtor
23 has represented that for purposes of final determination of Class 6 Claims, the Debtor will prosecute its
24 contentions before the FERC and will not attempt to obtain a determination of such matters before the
25 Bankruptcy Court or any other forum, except for the limited process described in the preceding sentence
26 and to the extent the Debtor has an objection unrelated to the subject matter of the FERC proceedings.
27 Nothing in this paragraph precludes the Debtor from asserting any other defense or objection to any Class 6
28 Claim. The Debtor has stated that it intends to negotiate with the PX Participants' Committee in good faith
to attempt to resolve issues relating to the valuation of Class 6 Claims for feasibility purposes. The Debtor
has stated that it further intends to file one or more objections to Class 6 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 Class 6 Claims for feasibility purposes, or the Debtor intends to
file a Claim on behalf of any non-filing participant.

1 The aggregate amount of ESP Claims filed is materially higher than the amount the
2 Debtor believes is allowable under the Plan. Of the \$576 million of ESP Claims filed,
3 approximately \$55 million are duplicate Claims. In addition, the energy credits were based on
4 wholesale electricity prices the FERC has determined to be unjust and unreasonable. The Debtor
5 has indicated that it expects to ask the Commission to make approximately \$101 million in
6 reductions in the credits to be paid to the ESPs based on FERC orders.

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

10 **17. Class 8 – Environmental, Fire Suppression, Tort and FERC License Claims.**

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

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

24 Section 4.16(b) of the Commission's Plan provides that all Environmental, Fire
25 Suppression, Tort and FERC License Claims are Disputed Claims and shall be determined,
26 resolved, or adjudicated, as the case may be, in a manner as if the Chapter 11 Case had not been
27 commenced (except that, under sections 365 and/or 1123(b)(2) of the Bankruptcy Code,
28 contractual provisions, accelerations and defaults eliminated or rendered unenforceable by such

1 sections shall remain eliminated or unenforceable, and the stay shall remain in place for any
2 Allowed Environmental, Allowed Fire Suppression, Allowed Tort Claims and Allowed FERC
3 License Claims as to which sections 365 and/or 1123(b)(2) of the Bankruptcy Code are
4 applicable) and shall survive the Effective Date as if the Chapter 11 Case had not been
5 commenced and, upon the determination, resolution or adjudication of any such Claim as
6 provided herein, such Claim shall be deemed to be an Allowed Environmental Claim, Allowed
7 Fire Suppression Claim, Allowed Tort Claim or Allowed FERC License Claim, as the case may
8 be, in the amount or in the manner determined by a Final Order or by a binding award,
9 agreement, or settlement; provided, however, that in addition to the Debtor's preservation of all
10 rights and defenses respecting any Environmental Claim, Fire Suppression Claim, Tort or FERC
11 License Claim that exist under applicable nonbankruptcy law, (i) any rejection, avoidance,
12 recovery or other power or defense available to the debtor under section 365, 510 (except
13 subordination), 542, 543, 544, 545, 547, 548, 549, 550, 553 or 724 of the Bankruptcy Code is
14 preserved, except with respect to any Environmental Order, and (ii) the Debtor may object under
15 section 502 of the Bankruptcy Code to any Environmental Claim, Fire Suppression Claim, Tort
16 Claim or FERC License Claim on the ground that (a) such Environmental Claim, Fire
17 Suppression Claim, Tort Claim or FERC License Claim was not timely asserted in the Chapter
18 11 Case, (b) such Environmental Claim, Fire Suppression Claim, Tort Claim or FERC License
19 Claim or is subject to any power or defense reserved in clause (i) of this sentence and/or is
20 disallowable under section 502(d) of the Bankruptcy Code, or (c) such Environmental Claim,
21 Fire Suppression Claim, Tort or FERC License Claim is disallowable under section 502(e) of the
22 Bankruptcy Code, to the extent such section is relied on to ensure that there is no duplication in
23 the claim of an allegedly subrogated claimant, on the one hand, and the underlying claimant
24 whose claim allegedly gave rise to the subrogated claim, on the other. Subject to the foregoing,
25 all Environmental, Fire Suppression, Tort and FERC License Claims shall be determined and
26 liquidated under applicable nonbankruptcy law in the administrative or judicial tribunal in which
27 they are pending as of the Effective Date or, if no such action is pending on the Effective Date,
28 in any administrative or judicial tribunal of appropriate jurisdiction (other than the Bankruptcy

1 Court). To effectuate the foregoing, the entry of the Confirmation Order shall, effective as of the
2 Effective Date, constitute a modification of any stay or injunction under the Bankruptcy Code
3 that would otherwise preclude the determination, resolution, or adjudication of any
4 Environmental Claims, Fire Suppression Claims, Tort Claims or FERC License Claims, except
5 for any Environmental Claim, Fire Suppression Claim, Tort Claim or FERC License Claim
6 arising out of the exercise by the Debtor, as Debtor-in-Possession, of any rejection, avoidance,
7 recovery, or other power or defense available to it pursuant to any one or more of sections 365,
8 510 (except subordination), 542, 543, 544, 545, 547, 548, 549, 550, 553 or 724 of the
9 Bankruptcy Code, except with respect to any Environmental Order. Nothing contained in
10 section 4.16(b) of the Plan, described here, will constitute or be deemed to constitute a waiver of
11 any (i) claim, right or Cause of Action that the Debtor or Reorganized Debtor may have against
12 any Person or Governmental Entity in connection with or arising out of any Environmental, Fire
13 Suppression, Tort and FERC License Claim, including, but not limited to, any rights under
14 section 157(b) of title 28, United States Code, or (ii) defense in any action or proceeding in any
15 administrative or judicial tribunal, including, but not limited to, with respect to the jurisdiction of
16 such administrative or judicial tribunal, except a defense to a Claim that was timely filed in the
17 Chapter 11 Case and that constitutes an Environmental Claim, a Fire Suppression Claim, a Tort
18 Claim or a FERC License Claim, where such defense is based on the discharge of section
19 1141(d) of the Bankruptcy Code. In light of the unimpaired pass-through treatment of
20 Environmental Claims, Fire Suppression Claims, Tort Claims and FERC License Claims
21 hereunder, the Reorganized Debtor waives the discharge of section 1141(d) of the Bankruptcy
22 Code as to any Claim that was timely filed in the Chapter 11 Case and that constitutes an
23 Environmental Claim, a Fire Suppression Claim, a Tort Claim, or a FERC License Claim.

24 As to any consent decree, injunction, cleanup and abatement order or any other
25 administrative or judicial order or decree binding upon the Debtor and outstanding as of the
26 Effective Date (whether originating before or after the Petition Date) that pertains to any
27 environmental matter described in clauses (a) through (c) of the definition of Environmental
28 Claim under the Plan (each an “Environmental Order”), each such Environmental Order,

1 regardless of whether it constitutes or is characterized as an Environmental Claim, shall also
2 survive the Effective Date as if the Chapter 11 Case had not been commenced, shall not be
3 discharged under section 1141(d) of the Bankruptcy Code, and shall not otherwise be adversely
4 affected by the Chapter 11 Case (except for any objection to such Environmental Claim based on
5 the contention that such Environmental Order is an Environmental Claim that was not timely
6 asserted in the Chapter 11 Case).

7 **18. Class 9 - Chromium Litigation Claims.**

8 Class 9 includes Chromium Litigation Claims, but does not include (a) any Claims
9 settled, liquidated or determined by a Final Order or a binding award, agreement or settlement
10 for amounts payable by the Debtor for damages or other obligations prior to the Petition Date in
11 a fixed dollar amount payable in a lump sum or by a series of payments (which Claims are
12 classified as General Unsecured Claims), (b) Environmental Claims, (c) Fire Suppression
13 Claims, (d) Tort Claims, or (e) and FERC License Claims. All Chromium Litigation Claims are
14 Disputed Claims.

15 Class 9 is unimpaired under the Commission's Plan. Each Allowed Chromium Litigation
16 Claim shall be satisfied in full in the ordinary course of business at such time and in such manner
17 as the Debtor or the Reorganized Debtor, as the case may be, is obligated to satisfy such Allowed
18 Claim under applicable law. Except as provided under applicable non-bankruptcy law, Post-
19 Petition Interest will not be paid on Chromium Litigation Claims.

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

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

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

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

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

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

10 **21. Class 12 - Workers’ Compensation Claims.**

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

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

24 Class 13 includes the Debtor’s First Preferred Stock, par value \$25.00 per share, and the
25 Debtor’s \$100 First Preferred Stock, par value \$100.00 per share. The Debtor’s First Preferred
26 Stock includes: (a) 6% Non-Redeemable First Preferred, (b) 5.5% Non-Redeemable First
27 Preferred, (c) 5% Non-Redeemable First Preferred, (d) 5% Redeemable First Preferred Series D,
28 (e) 5% Redeemable First Preferred Series E, (f) 4.80% Redeemable First Preferred, (g) 4.50%

1 Redeemable First Preferred, (h) 4.36% Redeemable First Preferred, (i) 6.57% Redeemable First
2 Preferred, (j) 7.04% Redeemable First Preferred, and (k) 6.30% Redeemable First Preferred.

3 Class 13 is unimpaired under the Commission's Plan.²⁹ Each holder of a Preferred Stock
4 Equity Interest will retain its Preferred Stock in the Reorganized Debtor and will receive in Cash
5 any dividends and sinking fund payments accrued in respect of such Preferred Stock through the
6 last scheduled payment date prior to the Effective Date.

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

8 Class 14 includes one hundred percent (100%) of 326,926,667 issued and outstanding
9 shares of common stock of Debtor as of April 3, 2002, all of which shares are held directly or
10 indirectly by the Parent.

11 Class 14 is impaired under the Commission's Plan. The holder(s) of the Common Stock
12 Equity Interests shall retain their interests in the Common Stock subject to dilution resulting
13 from the issuance of Common Stock by the Reorganized Debtor as described in Article VII of
14 the Plan.

15 **C. Plan Implementation**

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

17 Pursuant to the Commission's Plan, on or before the Effective Date, or as soon as
18 practicable thereafter, the Reorganized Debtor shall issue and sell through one or more public or
19 private offerings new debt securities of and common stock in the Reorganized Debtor, the net
20 proceeds of which, in addition to the Debtor's available Cash, will be sufficient to satisfy all
21 Allowed Claims under the Plan to be paid in Cash. The terms and estimated amounts of debt
22 securities to be issued under the Plan are described on Exhibit 3 to the Plan. SUCH TERMS
23 AND ESTIMATED AMOUNTS REMAIN SUBJECT TO CHANGE BASED UPON, AMONG

24 _____
25 ²⁹ 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 OTHER FACTORS, ACTUAL OR PERCEIVED MARKET CONDITIONS AND RATING
2 AGENCY REQUIREMENTS AT THE TIME OF ISSUANCE, THE AMOUNT OF THE
3 REORGANIZED DEBTOR'S AVAILABLE CASH ON THE EFFECTIVE DATE, AND THE
4 AMOUNT OF ALLOWED CLAIMS. The securities to be issued are described generally below.

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

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

15 It is anticipated that the securities to be issued by the Reorganized Debtor under the
16 Commission's Plan will be marketed by underwriters. Once the registration statements with
17 respect to such securities have been declared effective by the SEC, the securities will be priced
18 and, with respect to the debt securities, the underwriting syndicate will determine the appropriate
19 interest rates.

20 **(a) Reorganized Debtor New Money Notes**

21 To implement the Commission's Plan, on or before the Effective Date, or as soon as
22 practicable thereafter, the Reorganized Debtor will issue and sell, through one or more private or
23 public offerings, the Reorganized Debtor New Money Notes in an original aggregate principal
24 amount sufficient to yield net proceeds of approximately \$3.86 billion, the terms of which are
25 described on Exhibit 3 to the Commission's Plan, the net proceeds of which will be used to fund
26 payments to holders of Allowed Claims.

1 **(b) Common Stock**

2 In addition, pursuant to the Commission’s Plan, on or before the Effective Date, or as
3 soon as practicable thereafter, the Reorganized Debtor will issue and sell, through one or more
4 private or public offerings, such number of shares of Common Stock in the Reorganized Debtor
5 sufficient to yield net proceeds of approximately \$1.75 billion. The net proceeds of the
6 Reorganized Debtor’s issuance and sale of Common Stock will be used to fund payments to
7 holders of Allowed Claims.

8 **2. Working Capital Facility.**

9 Pursuant to the Commission’s Plan, the Reorganized Debtor will also obtain and establish
10 a new revolving credit facility (the “Credit Facility”) and capital expenditure sub-facility (the
11 “Sub-Facility,” and together with the Credit Facility, collectively, the “New Secured Credit
12 Facility”). The Credit Facility will amount to approximately \$1.9 billion and will be used for the
13 purposes of funding operating expenses and seasonal fluctuations of capital. The Sub-Facility
14 will total approximately \$500 million. The Credit Facility will have a carve-out of
15 approximately \$955 million for letters of credit, which may be needed to post collateral for
16 workers’ compensation liabilities; the remainder will be available for general working capital
17 and liquidity purposes. The terms of the New Secured Credit Facility are described on Exhibit 3
18 to the Plan.

19 **3. Settlement of Litigation.**

20 Pursuant to section 1123(b)(3)(A) of the Bankruptcy Code, a plan may provide for the
21 “settlement or adjustment of any claim or interest belonging to the debtor or to the estate”
22 In order to gain bankruptcy court approval, such settlement must generally (i) reflect a
23 reasonable balance of the risks and expenses of litigation against the benefits and early resolution
24 of the disputes; (ii) fall within the range of reasonableness for the resolution of complex
25 litigation or litigable issues and claims; and (iii) be fair and equitable and in the best interests of
26 the Debtor, its estate and all holders of Claims and Equity Interests. The Commission’s Plan
27 provides for a dismissal of the Claims Against the State with prejudice in consideration of the
28 benefits to the PG&E Proponents provided for under the Commission’s Plan. By way of

1 example, the Rate Recovery Litigation is dismissed with prejudice under the Commission's Plan
2 because the Commission's Plan effectively provides PG&E with the relief it seeks in the Rate
3 Recovery Litigation. The Commission intends to prove at Confirmation that dismissal with
4 prejudice of all Claims Against the State satisfies the applicable standard for settlements under a
5 plan of reorganization.

6 **4. New Tax Sharing Agreement.**

7 As part of the implementation of the Plan, the Parent and the Reorganized Debtor will
8 enter into the New Tax Sharing Agreement, replacing the Existing Tax Matters Agreement.
9 Based upon information currently available to it, the Commission expects that the Reorganized
10 Debtor will continue to be a member of the affiliated group of corporations filing a consolidated
11 tax return of which the Parent is the common parent (the "Parent Affiliated Group"). The
12 purpose of the New Tax Sharing Agreement is to determine the Debtor's contribution to the
13 Parent Affiliated Group's tax payments in a fair and equitable manner. To this end, the New Tax
14 Sharing Agreement will provide that the Reorganized Debtor and its Subsidiaries are required to
15 make payments to the Parent in an amount equal to the amount of taxes they would have paid if
16 the Reorganized Debtor and its Subsidiaries had filed returns as members of an affiliated group
17 that included only the Reorganized Debtor and its Subsidiaries. Similarly, the Parent will be
18 obligated to make payments to the Reorganized Debtor in an amount equal to the amount of tax
19 refunds that the Reorganized Debtor would have received if the Reorganized Debtor and its
20 Subsidiaries had filed such returns as members of an affiliated group that included only the
21 Reorganized Debtor and its Subsidiaries.

22 The Commission believes that the Debtor should have been obligated to make payments
23 and entitled to receive tax refunds on this basis under the Existing Tax Matters Agreement.
24 Accordingly, the New Tax Sharing Agreement will provide that, promptly after execution of the
25 Agreement, the Parent and the Reorganized Debtor will determine whether the previous tax
26 sharing payments to and from the Parent would have been different if the Agreement had been in
27 effect from and after such date, and an appropriate payment will be made (without interest) to or
28 from the Parent to reflect the additional amount that would have been paid if all tax sharing

1 payments had been calculated on this basis for all taxable years beginning on or after January 1,
2 1998.

3 **5. Regulation.**

4 Pursuant to the Commission's Plan, the Debtor will timely seek all regulatory approvals
5 from all applicable Governmental Entities, including the Commission, that are necessary to
6 effectuate the transactions specified in the Commission's Plan. Consistent with applicable law,
7 the Commission shall regulate the Reorganized Debtor's operations to the full extent that it
8 regulated the Debtor's operations prior to the Petition Date under traditional cost-of-service
9 ratemaking. In that regard, the Reorganized Debtor will operate its business in accordance with
10 all applicable laws and regulations promulgated or issued by the Commission and all other
11 Governmental Entities having jurisdiction over its business.

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

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

19 Subject to Bankruptcy Rule 3021 and 9010, all distributions under the Commission's
20 Plan shall be made (i) to the holder of each Allowed Claim or Equity Interest at the address of
21 such holder as listed on the Debtor's Bankruptcy Schedules as of the Distribution Record Date,
22 unless the Debtor or, on and after the Effective Date, the Reorganized Debtor, has been notified
23 in writing of a change of address, including, without limitation, by the filing of a timely proof of
24 Claim or Equity Interest by such holder that provides an address for such holder different from
25 the address reflected on the Debtor's Bankruptcy Schedules, or (ii) pursuant to the terms of a
26 particular indenture of the Debtor or in accordance with other written instructions of a trustee
27 under such indenture.
28

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

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

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

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

20 Except to the extent a holder of an Allowed Claim or Equity Interest has otherwise been
21 paid all or a portion of such holder's Allowed Claim or Equity Interest prior to the Effective
22 Date, each of the distributions specified in Article IV of the Plan with respect to each Allowed
23 Claim or Equity Interest will occur on the Effective Date, or as soon as practicable thereafter.
24 Any payment or distribution required to be made under the Plan on a day other than a Business
25 Day will be made on the next succeeding Business Day.

26 Pursuant to the Cash Collateral Order, the Debtor has paid and will continue to pay Post-
27 Petition Interest to the holders of Allowed Claims in Classes 3 and 4a. In addition, the Debtor
28 will make payments of Post-Petition Interest accruing on and after the Initial Calculation Date

1 and through the last day of the last calendar quarter ending prior to the Effective Date, in arrears,
2 in quarterly installments (or in the case of such first quarter following the applicable Initial
3 Calculation Date, such portion of a quarter) as follows: (i) on the first Business Day of the next
4 calendar Quarter to the holders of Allowed Class 5 Claims for Senior Indebtedness and the
5 holders of Allowed Claims in Classes 4c, 4f, 4g, and 11, and (ii) within 30 days following the
6 end of the calendar quarter to the remaining holders of Allowed Class 5 Claims and the holders
7 of Allowed Claims in Classes 1, 2, 6, 7 and 10. Any Post-Petition Interest that accrues during
8 the period commencing on the first day of the calendar quarter in which the Effective Date
9 occurs and ending on the Effective Date will be paid on the Effective Date.

10 Pursuant to the Settlement Order and the Settlement and Support Agreement, the accrual
11 and payment of Post-Petition Interest will terminate if (i) the Debtor is determined by a Final
12 Order of the Bankruptcy Court to be insolvent (on a balance sheet basis), with such interest
13 accrual termination effective as of the date of insolvency, as determined by the Bankruptcy
14 Court, (ii) upon conversion of the Chapter 11 Case to a case under chapter 7; provided that there
15 is not a subsequent determination of the Bankruptcy Court that there are assets of sufficient value
16 to pay Post-Petition Interest on the applicable Allowed Claims, or (iii) under circumstances that
17 would allow for recharacterization as described below.

18 Any payments of Post-Petition Interest may be recharacterized and treated as partial
19 payment of the principal amount of the applicable Allowed Claims under the following
20 circumstances: (i) in the event that the Bankruptcy Court determines, by entry of a Final Order,
21 that the Debtor is insolvent (on a balance sheet basis), from the date of insolvency as determined
22 by the Bankruptcy Court; or (ii) if this Plan is not confirmed and another plan of reorganization
23 other than PG&E's Plan is confirmed, in which case any payment of pre-petition interest and
24 Post-Petition Interest made pursuant to the Settlement Order and the Settlement and Support
25 Agreement that exceeds the amount of pre-petition interest and Post-Petition Interest otherwise
26 required to be paid to the holders of the affected Allowed Claims under the terms of such other
27 confirmed plan of reorganization may, in the sole discretion of the proponent(s) of such plan,
28

1 may be recharacterized and treated as a partial payment of the principal amount of the applicable
2 Allowed Claims.

3 Except as set forth in Section 4.2(a) of the Plan and except to the extent a holder of an
4 Allowed Claim or Equity Interest has otherwise been paid all or a portion of such holder's
5 Allowed Claim or Equity Interest prior to the Effective Date, each of the distributions specified
6 in Article IV of the Plan with respect to each Allowed Claim or Equity Interest will (i) occur on
7 the later of the Effective Date and the date such Allowed Claim or Equity Interest becomes an
8 Allowed Claim or Equity Interest, or as soon as practicable thereafter, and (ii) be in full and
9 complete settlement, satisfaction and discharge of such Allowed Claim or Equity Interest.

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

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

16 Pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, all executory
17 contracts and unexpired leases that exist between the Debtor and any Person or Governmental
18 Entity shall be deemed assumed by the Debtor, as of the Effective Date, except that any
19 executory contract or unexpired lease shall be deemed rejected by the Debtor as of the Effective
20 Date (i) that has been rejected pursuant to a Final Order of the Bankruptcy Court entered prior to
21 the Confirmation Date, (ii) as to which a motion for approval of the rejection of such executory
22 contract or unexpired lease has been filed and served prior to the Confirmation Date or (iii) that
23 is set forth in Schedule 6.1(a)(i) of PG&E's Plan Supplement (executory contracts) (which
24 Schedule is amended under the Plan to include the Existing Tax Matters Agreement) or Schedule
25 6.1(a)(ii) of PG&E's Plan Supplement (unexpired leases);³⁰ provided, however, that the Debtor

26 _____
27 ³⁰ 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 reserves the right, on or prior to the conclusion of the confirmation hearing, to amend
2 Schedules 6.1(a)(i) and 6.1(a)(ii) to the Plan Supplement to delete any executory contract or
3 unexpired lease therefrom or to add any executory contract or unexpired lease thereto, in which
4 event such executory contract(s) or unexpired lease(s) shall be deemed to be assumed by the
5 Debtor or rejected, as the case may be, as of the Effective Date. The Debtor will give notice of
6 any such amendment to each counterparty to any executory contract or unexpired lease the status
7 of which is changed as a result of the amendment (i.e., any executory contract which is to be
8 assumed or rejected as a result of the amendment) and to the Commission. If the counterparty
9 opposes such proposed amendment, the Debtor and the Commission will make all reasonable
10 efforts to provide such counterparty a reasonable opportunity under the circumstances to object
11 prior to confirmation of the Commission's Plan, and to the extent that such counterparty has the
12 right to vote on the Commission's Plan, or becomes entitled to vote on the Plan as a result of the
13 amendment to Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement, to provide such
14 counterparty a reasonable amount of time to cast a Ballot to accept or reject the Commission's
15 Plan and indicate its preference for the Commission's Plan or the PG&E Plan, or to amend its
16 Ballot. The listing of a document on Schedules 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan
17 Supplement will not constitute an admission by the Debtor that such document is an executory
18 contract or an unexpired lease or that the Debtor has any liability thereunder. Notwithstanding
19 anything to the contrary, the Debtor waives its right to make amendments pursuant to this
20 Section 6.1(a) with respect to the assumption of the PG&E-Western Area Power Administration
21 Contract 2948A and related contracts, as described in Exhibit G to PG&E's Disclosure
22 Statement.

23 Pursuant to Commission's Plan, each executory contract and unexpired lease listed or to
24 be listed on Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement shall include
25 (i) modifications, amendments, supplements, restatements or other similar agreements made
26 directly or indirectly by any agreement, instrument, or other document that in any manner affects
27 such executory contract or unexpired lease, without regard to whether such agreement,
28 instrument or other document is listed on Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan

1 Supplement, and (ii) executory contracts or unexpired leases appurtenant to the premises listed
2 on Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement, including, without limitation, all
3 easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal,
4 powers, uses, usufructs, reciprocal easement agreements or vault, tunnel or bridge agreements,
5 and any other interests in real estate or rights in rem relating to such premises to the extent any of
6 the foregoing are executory contracts or unexpired leases, unless any of the foregoing
7 agreements previously have been assumed or assumed and assigned by the Debtor.

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

13 Except as provided in Section 6.1 of the Commission's Plan, all savings, retirement,
14 health care, severance, performance-based cash incentive, retention, employee welfare benefit,
15 life insurance, disability and other similar plans and agreements of the Debtor are treated as
16 executory contracts under the Commission's Plan and shall, on the Effective Date, be deemed
17 assumed by the Debtor in accordance with sections 365(a) and 1123(b)(2) of the Bankruptcy
18 Code, and any defaults thereunder shall be cured as provided in Section 6.4 of the Commission's
19 Plan.

20 Pursuant to the Commission's Plan, payments, if any, due to any Person for the purpose
21 of providing or reimbursing payments for retired employees and their spouses and dependents
22 for 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.

27 Entry of the Confirmation Order shall, subject to and upon the occurrence of the
28 Effective Date, constitute (i) the approval, pursuant to sections 365(a) and 1123(b)(2) of the

1 Bankruptcy Code, of the assumption of the executory contracts and unexpired leases assumed
2 pursuant to Section 6.1 of the Commission's Plan, (ii) the extension of time, pursuant to
3 section 365(d)(4) of the Bankruptcy Code, within which the Debtor may assume or reject the
4 unexpired leases of non-residential property specified in Section 6.1 of the Commission's Plan
5 through the date of entry of the Confirmation Order, and (iii) pursuant to sections 365(a) and
6 1123(b)(2) of the Bankruptcy Code, the approval of the rejection of the executory contracts and
7 unexpired leases rejected pursuant to Section 6.1 of the Commission's Plan.

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

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

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

23 Pursuant to the Commission's Plan, on the Effective Date (or as soon as practicable
24 thereafter), and after making all distributions required to be made on the Effective Date, the
25 Reorganized Debtor shall establish one or more separate escrows, each of which shall be
26 administered by the Disbursing Agent in accordance with the terms of the Commission's Plan
27 and pursuant to the direction of the Bankruptcy Court, and shall deposit or segregate into such
28 escrow account(s) sufficient Cash to make distributions in respect of Disputed Claims; provided,

1 however, the Reorganized Debtor shall establish one escrow solely for the benefit of any
2 Disputed Chromium Litigation Claims and shall maintain such escrow separate from any
3 escrow(s) established for the benefit of any other Disputed Claims; and provided further, that this
4 provision shall not apply to Environmental Claims, Fire Suppression Claims, Tort Claims and
5 FERC License Claims. No distributions from the escrow(s) shall be made until such Disputed
6 Claims have been Allowed or otherwise resolved by the Bankruptcy Court and any such
7 distributions shall be made in accordance with the terms of the Commission's Plan. The Cash
8 deposited into the escrow account(s) shall be invested in either (i) money market funds
9 consisting primarily of short-term U.S. treasury securities, or (ii) obligations guaranteed by the
10 United States of America or any agency thereof, at the Debtor's option. Except as set forth in the
11 preceding sentence, neither the Debtor nor any Related Party (within the meaning of Treasury
12 Regulation Section 1.468B-1(d)(2)) shall have any discretion over the disposition or investment
13 of property in the escrow with respect to Disputed Chromium Litigation Claims.

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

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

28

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

8 Subject to definitive guidance from the IRS or a court of competent jurisdiction to the
9 contrary (including the receipt by the Disbursing Agent of a private letter ruling, or the receipt of
10 an adverse determination by the IRS upon audit if not consented by the Disbursing Agent), the
11 Disbursing Agent shall treat the escrow with respect to any Disputed Chromium Litigation
12 Claims as a "qualified settlement fund" within the meaning of Treasury Regulation Section
13 1.468B-1. All Persons (including all holders of such Claims) shall report consistently with such
14 treatment.

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

16 Except as to applications for allowance of compensation and reimbursement of
17 Professional Compensation and Reimbursement Claims under sections 330 and 503 of the
18 Bankruptcy Code, the Reorganized Debtor shall, on and after the Effective Date, have the right
19 to make and file objections to Administrative Expense Claims and Claims. In addition, pursuant
20 to the Plan, the Commission will, on and after the Effective Date, have full party-in-interest
21 status to make and file objection to the Administrative Expense Claims and Claims and to appear
22 and be heard with respect thereto. Except as to applications for allowance of compensation and
23 reimbursement of Professional Compensation and Reimbursement Claims under sections 330
24 and 503 of the Bankruptcy Code, and with respect to objections filed by the Commission, on and
25 after the Effective Date, the Reorganized Debtor shall have the authority to compromise, settle,
26 otherwise resolve or withdraw any objections to Administrative Expense Claims and Claims and
27 compromise, settle or otherwise resolve Disputed Administrative Expense Claims and Disputed
28 Claims without the approval of the Bankruptcy Court. Unless otherwise ordered by the

1 Bankruptcy Court, (a) all objections to Claims (except for Administrative Expense Claims) shall
2 be served and filed upon the holder of the Claim as to which the objection is made (and, as
3 applicable, upon the Debtor, the Committee and the Commission) as soon as practicable, but in
4 no event later than the Effective Date, and (b) all objections to Administrative Expense Claims
5 shall be served and filed upon the holder of the Administrative Expense Claim as to which the
6 objection is made (and, as applicable, upon the Debtor, the Committee and the Commission) as
7 soon as practicable, but in no event later than ninety (90) days after the Effective Date.

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

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

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

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

26 (a) the Bankruptcy Court shall have entered an order or orders, which may be
27 the Confirmation Order, approving the Commission's Plan, authorizing and directing the Debtor
28

1 to execute, enter into and deliver the Plan, and to execute, implement and take all actions
2 necessary or appropriate to give effect to the transactions contemplated by the Plan; and

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

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

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

8 (a) the Confirmation Order, in form and substance acceptable to the
9 Commission, shall have been entered by the Bankruptcy Court on or before October 31, 2002,
10 and shall have become a Final Order;

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

12 (c) all actions, documents, instruments and agreements necessary to
13 implement the Plan shall have been effected or executed;

14 (d) the Reorganized Debtor shall have consummated the sale of the
15 Reorganized Debtor New Money Notes and the Common Stock as contemplated under the Plan
16 and the proceeds thereof shall, in addition to the Debtor's available Cash, be sufficient to pay all
17 Allowed Claims to be paid under the Plan and to fund the escrows for Disputed Claims;

18 (e) the Bankruptcy Court shall have entered an order, which may be the
19 Confirmation Order, approving the Debtor's dismissal with prejudice of the Claims Against the
20 State;

21 (f) the Bankruptcy Court shall have entered an order, which may be the
22 Confirmation Order, approving the Debtor's entry into the New Tax Sharing Agreement and the
23 Debtor shall have executed and delivered the same;

24 (g) the Debtor shall dismiss all Claims Against the State with prejudice and
25 the Debtor shall have executed and delivered to the Commission all pleadings and release
26 documents required by the Commission and the State of California, which shall be in form and
27 substance satisfactory to the Commission and the State.

28

1 (h) S&P and Moody's shall have issued credit ratings for the Reorganized
2 Debtor and its debt securities of not less than BBB- and Baaa3, respectively.

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

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

9 **The Commission may waive by a writing signed by an authorized representative(s)**
10 **and subsequently filed with the Bankruptcy Court, one or more of the conditions precedent**
11 **set forth in Section 8.2 of the Plan, described above.**

12 In the event that one or more of the conditions to the Effective Date described above shall
13 not have occurred or been waived on or before January 31, 2003, (a) the Confirmation Order
14 shall be vacated, (b) no distributions under the Commission's Plan shall be made, (c) the Debtor
15 and all holders of Claims and Equity Interests shall be restored to the status quo ante as of the
16 day immediately preceding the Confirmation Date as though the Confirmation Order had never
17 been entered, and (d) the Debtor's obligations with respect to Claims and Equity Interests shall
18 remain unchanged and nothing contained in the Plan shall constitute or be deemed a waiver or
19 release of any Claims or Equity Interests by or against the Debtor or any Person or Governmental
20 Entity or to prejudice in any manner the rights of the Debtor or any Person or Governmental
21 Entity in any further proceedings involving the Debtor; provided, however, that the amounts paid
22 pursuant to Section 4.2(a) of the Commission's Plan on account of Post-Petition Interest may be
23 recharacterized as a payment upon the applicable Allowed Claims, in the Debtor's sole
24 discretion, but the Debtor will not otherwise seek to recover such amounts.

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

26 On the Effective Date, except as otherwise transferred, sold or otherwise provided for in
27 the Commission's Plan, the property of the Debtor's estate shall vest in the Reorganized Debtor.
28

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

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

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

11 As of the Effective Date, any and all avoidance claims accruing to the Debtor under
12 sections 502(d), 544, 545, 547, 548, 549, 550 and 551 of the Bankruptcy Code and not then
13 pending, shall be extinguished. All other Causes of Action of the Debtor, other than those
14 expressly released or dismissed with prejudice under the Plan, shall vest in the Reorganized
15 Debtor, subject, among other things, to the Commission's right to determine whether any
16 proceeds of such Causes of Action should be payable to or otherwise benefit the Debtor's and the
17 Reorganized Debtor's ratepayers.

18 **M. Discharge and Injunction**

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

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

23 **N. Voting**

24 **1. Voting of Claims.**

25 Each holder of an Allowed Claim or Equity Interest in an impaired Class of Claims or
26 Equity Interests as of the Voting Record Date that is entitled to vote on the Commission's Plan
27 pursuant to Article IV of the Plan shall be entitled to vote separately with regard to each
28 impaired class of Claims or Equity Interests held by such holders or to accept or reject the Plan

1 as provided in the Disclosure Statement Order attached hereto as Exhibit B, or any other order or
2 orders of the Bankruptcy Court. If the Debtor objects to a Claim, the Claim becomes a Disputed
3 Claim. The holder of a Disputed Claim is not entitled to vote on the Plan unless the Debtor or
4 the holder of the Disputed Claim obtains an order of the Bankruptcy Court estimating the amount
5 of the Disputed Claim for voting purposes. If the Debtor does not object to a Claim prior to the
6 date on which the Disclosure Statement and the Ballot are transmitted to creditors for voting, the
7 holder of such Claim will be permitted to vote on the Commission Plan in the full amount of the
8 Claim as filed.

9 **2. Elimination of Vacant Classes.**

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

15 **3. Nonconsensual Confirmation.**

16 If one or more classes of Claims or Equity Interests entitled to vote shall not accept the
17 Commission's Plan by the requisite statutory majorities provided in section 1126(c) of the
18 Bankruptcy Code, the Commission reserves the right to amend the Plan in accordance with
19 Section 11.10 of the Plan or undertake to have the Bankruptcy Court confirm the Plan under
20 section 1129(b) of the Bankruptcy Code, or both. With respect to any impaired Classes of
21 Claims or Equity Interests that may be deemed to reject the Plan, the Commission shall request
22 the Bankruptcy Court to confirm the Plan under section 1129(b) of the Bankruptcy Code. See
23 Section VII.C.2 of this Disclosure Statement for more information regarding nonconsensual
24 confirmation.

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

26 The following subsections summarize certain other significant provisions of the
27 Commission's Plan.
28

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

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

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

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

25 **3. Revocation or Withdrawal of the Commission’s Plan.**

26 The Commission reserves the right to revoke or withdraw the Plan prior to the
27 Confirmation Date. If the Commission revokes or withdraws the Plan prior to the Confirmation
28 Date, then the Plan shall be deemed null and void. In such event, nothing contained in the Plan

1 shall constitute or be deemed a waiver or release of any claims by or against the Debtor or any
2 other Person or Governmental Entity, including the Commission, or to prejudice in any manner
3 the rights of the Debtor or any Person or Governmental Entity, including the Commission, in any
4 further proceedings involving the Debtor.

5 **4. Termination of the Committee.**

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

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

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

15 **6. Release of Certain Parties.**

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

27 Pursuant to the Plan, as of the Effective Date, the Debtor releases the Commission, its
28 present and former commissioners in their official capacities and their respective successors, the

1 State of California and its officers and commissioners in their official capacities and their
2 respective successors, as well as the Commission's and the State's present and former
3 employees, advisors, consultants and professionals from any and all Causes of Action held by,
4 assertable on behalf of or derivative of the Debtor, in any way relating to the Debtor as Debtor-
5 in-Possession, the Chapter 11 Case, the Plan, negotiations regarding or concerning the Plan and
6 the ownership, management and operation of the Debtor as Debtor-in-Possession.

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

17 **7. Exculpation.**

18 Pursuant to the Commission's Plan, as of and subject to the occurrence of the
19 Confirmation Date, (a) the Commission shall have been deemed to have negotiated the Plan in
20 good faith, (b) the Commission shall be deemed to have solicited acceptances of the Plan in good
21 faith and in compliance with the applicable provisions of the Bankruptcy Code, including,
22 without limitation section 1125(a) of the Bankruptcy Code, and any applicable non-bankruptcy
23 law, rule or regulation governing the adequacy of disclosure in connection with such solicitation,
24 and (c) the Commission and its individual Commissioners, in their official capacities, and the
25 Commission's agents, employees, advisors and attorneys shall be deemed to have participated in
26 good faith and in compliance with the applicable provisions of the Bankruptcy Code in
27 connection with the offer and issuance of any securities under the Plan, and therefore, neither the
28 Commission nor its individual commissioners nor any of the Commission's agents, employees,

1 advisors and professionals shall have or incur any liability to any holder of a Claim or Equity
2 Interest or other party in interest for any act or omission in connection with, related to, or arising
3 out of, the Chapter 11 Case, negotiations regarding or concerning the Plan, the pursuit of
4 confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the
5 property to be distributed under the Plan, except for willful misconduct or gross negligence, and,
6 in all respects, the Commission and its individual commissioners, and the Commission's agents
7 employees, advisors and professionals shall be entitled to rely upon the advice of counsel with
8 respect to their duties and responsibilities under the Plan.

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

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

15 The officers of the Debtor immediately prior to the Effective Date shall serve as the
16 initial officers of the Reorganized Debtor on and after the Effective Date. Such officers shall
17 serve in accordance with any employment agreement with the Reorganized Debtor and
18 applicable law.

19 The articles of incorporation and bylaws of the Reorganized Debtor will be amended to
20 contain provisions necessary to (a) prohibit the issuance of nonvoting equity securities as
21 required by section 1123(a)(6) of the Bankruptcy Code, subject to further amendment of such
22 articles of incorporation and bylaws as permitted by applicable law, (b) authorize the issuance of
23 shares of Common Stock in the Reorganized Debtor pursuant to Section 7.1(b) of the Plan, and
24 (b) effectuate the other provisions of the Plan, in each case without any further action by the
25 Debtor's shareholders or Board of Directors.

1 **9. Commission’s Plan Supplement.**

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

- 5 • New Tax Sharing Agreement, and
- 6 • Schedule of Claims Against the State.

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

13 **10. Retention of Jurisdiction.**

14 Subject to the Commission’s and the State of California’s objections and defenses based
15 upon the Eleventh Amendment to the United States Constitution or related principles of
16 sovereign immunity or otherwise, all of which are reserved under the Plan, the Bankruptcy Court
17 shall have jurisdiction of all matters arising out of, or related to, the Chapter 11 Case and the
18 Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and
19 for, among other things, the following purposes:

- 20 (a) to hear and determine matters related to the Commission’s Plan;
- 21 (b) to hear and determine applications for the assumption or rejection of
22 executory contracts or unexpired leases, if any are pending, and the allowance of cure amounts
23 and Claims resulting therefrom;
- 24 (c) to hear and determine any and all adversary proceedings, applications and
25 contested matters;
- 26 (d) to hear and determine any objection to Administrative Expense Claims or
27 Claims;

1 (e) to enter and implement such orders as may be appropriate in the event the
2 Confirmation Order is for any reason stayed, revoked, modified or vacated;

3 (f) to issue such orders in aid of execution and consummation of the Plan, to
4 the extent authorized by section 1142 of the Bankruptcy Code;

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

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

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

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

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

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

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

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

21 **11. Exemption of Transfer Taxes.**

22 Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer or exchange of
23 notes or issuance of equity securities under the Commission's Plan, the creation of any mortgage,
24 deed of trust or other security interest, the making or assignment of any lease or sublease, or the
25 making or delivery of any deed or other instrument of transfer under, in furtherance of, or in
26 connection with the Plan, shall not be subject to any stamp, real estate transfer, documentary
27 transfer, mortgage recording, sales, use or other similar tax. All sale transactions consummated
28 by the Debtor and approved by the Bankruptcy Court on and after the Petition Date through and

1 including the Effective Date, including, without limitation, the sales, if any, by the Debtor of
2 owned property or assets pursuant to section 363(b) of the Bankruptcy Code, shall be deemed to
3 have been made under, in furtherance of, or in connection with the Plan and, therefore, shall not
4 be subject to any stamp, real estate transfer, documentary transfer, mortgage recording, sales, use
5 or other similar tax.

6 **12. Fees and Expenses.**

7 Upon the Bankruptcy Court's entry of a Final Order approving any application by the
8 Commission's legal and financial advisors under section 503(b)(4) of the Bankruptcy Code, the
9 amounts authorized for payment thereunder shall be treated as a Professional Compensation and
10 Reimbursement Claim and paid in accordance with Section 2.2 of the Plan.

11 Pursuant to the Plan, from and after the Confirmation Date, the Reorganized Debtor shall,
12 in the ordinary course of business and without the necessity for any approval by the Bankruptcy
13 Court, pay the reasonable fees and expenses of professional Persons thereafter incurred,
14 including, without limitation, those fees and expenses incurred by the Commission's
15 professionals in connection with the implementation and consummation of the Plan.

16 **13. Payment of Statutory Fees.**

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

20 **14. Severability.**

21 In the event that the Bankruptcy Court determines that any provision in the
22 Commission's Plan is invalid, void or unenforceable, such provision shall be invalid, void or
23 unenforceable with respect to the holder or holders of such Claims or Equity Interests as to
24 which the provision is determined to be invalid, void or unenforceable. The invalidity, voidness
25 or unenforceability of any such provision shall in no way limit or affect the enforceability and
26 operative effect of any other provision of the Plan.

1 **15. Binding Effect.**

2 The Plan shall be binding upon and inure to the benefit of the Commission, the Debtor,
3 the Reorganized Debtor, the holders of Claims and Equity Interests, other parties in interest, and
4 their respective successors and assigns.

5 **16. Governing Law.**

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

11 **17. Withholding and Reporting Requirements.**

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

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

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

21 **19. Minimum Distributions.**

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

25 **20. Subrogation Rights.**

26 Nothing in the Commission's Plan shall affect (a) the subrogation rights of any surety, to
27 the extent applicable or available, which, if available or applicable, shall remain in full force and
28

1 effect, or (b) the rights of the Debtor to object, pursuant to the Bankruptcy Code to the existence
2 of such subrogation rights.

3 **21. Corporate Action.**

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

12 **22. Notices.**

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

18 *If to the Debtor:*

19 Pacific Gas and Electric Company
20 77 Beale Street
21 P.O. Box 7442
22 San Francisco, California 94120
23 Attn: General Counsel
24 Telephone: (415) 973-7000
25 Facsimile: (415) 973-5320

26 *with a copy to:*

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

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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 13³¹ 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 ³¹ 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 has been scheduled for _____,
13 2002, commencing at _____ .m., Pacific Time, before the Honorable Dennis Montali, United
14 States Bankruptcy Judge, at the United States Bankruptcy Court for the Northern District of
15 California, 235 Pine Street, San Francisco, California 94014, or such other location as the
16 Bankruptcy Court directs. The Confirmation Hearing may be continued from time to time by the
17 Bankruptcy Court without further notice except for the announcement of the continuation date
18 made at the Confirmation Hearing or at any subsequent continued Confirmation Hearing. Any
19 objection to confirmation must be made in writing and specify in detail the name and address of
20 the objector, all grounds for the objection and the amount of the Claim or securities of the Debtor
21 held by the objector. Any such objection must be filed with the Bankruptcy Court and served so
22 that it is received by the Bankruptcy Court with a copy to chambers, together with proof of
23 service thereof, and served upon the following parties on or before _____, 2002 at
24 _____ .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
5 Attn: Stephen L. Johnson

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

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

9 **C. Confirmation**

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

16 **1. Acceptance.**

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

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

1 Claims, Class 10 – Convenience Claims, Class 9 – Chromium Litigation Claims, Class 12 –
2 Workers’ Compensation Claims, and Class 13 – Preferred Stock Equity Interests.³²

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

7 **2. Unfair Discrimination and Fair and Equitable Tests.**

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

- 13
- 14 • Secured Creditors. Either (a) each impaired secured creditor retains its liens securing
15 its secured claim and receives on account of its secured claim deferred cash payments
16 totaling, and having a present value as of the effective date of the plan equal to, at
17 least the amount of its allowed secured claim, (b) each impaired secured creditor
18 realizes the “indubitable equivalent” of its allowed secured claim or (c) the property
19 securing the claim is sold free and clear of liens with such liens to attach to the
20 proceeds of the sale and the treatment of such liens on proceeds to be as provided in
21 clause (a) or (b) above.
 - 22 • Unsecured Creditors. Either (a) each impaired unsecured creditor receives or retains
23 as of the effective date of the plan property of a value equal to the amount of its
24 allowed claim or (b) the holders of claims and interests that are junior to the claims of
25 the dissenting class will not receive any property under the plan.
 - 26 • Equity Interests. Either (a) each impaired holder of an equity interest will receive or
27 retain as of the effective date of the plan property of a value equal to the greatest of
28 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.

32 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
Class is impaired.

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

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

8 **3. Feasibility and Projections.**

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

17 The financial information and Projections appended to the Disclosure Statement include
18 for the Projection Period:

- 19 • Projected balance sheets for fiscal years ending in 2003, 2004 and 2005.
- 20 • Projected income statements for fiscal years ending in 2003, 2004 and
21 2005.
- 22 • Projected statements of cash flow for the fiscal years ending in 2003, 2004
23 and 2005.

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

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

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

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

22 **4. Best Interests Test.**

23 With respect to each impaired Class of Claims and Equity Interests, confirmation of the
24 Plan requires that each holder of a Claim or Equity Interest either (a) accept the Plan or
25 (b) receive or retain under the Plan property of a value, as of the Effective Date, that is not less
26 than the value such holder would receive if the Debtor were liquidated under chapter 7 of the
27 Bankruptcy Code. To determine the recovery that holders of Claims and Equity Interests in each
28 Impaired Class would receive if the Debtor were liquidated under chapter 7, the Bankruptcy

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

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

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

23 After considering the effects that a chapter 7 liquidation would have on the ultimate
24 proceeds available for distribution to creditors in the Chapter 11 Case, including (a) the increased
25 costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in
26 bankruptcy and professional advisors to such trustee, (b) the erosion in value of assets in a
27 chapter 7 case in the context of the expeditious liquidation required under chapter 7 and the
28 "forced sale" atmosphere that would prevail and (c) the substantial increases in claims that would

1 be satisfied on a priority basis or on parity with creditors in the Chapter 11 Case, the
2 Commission has determined that confirmation of the Plan will provide each holder of an
3 Allowed Claim and Equity Interest with a recovery that is not less than such holder would
4 receive pursuant to the liquidation of the Debtor under chapter 7.

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

14 **D. Consummation**

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

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

23 **VIII. FINANCIAL INFORMATION**

24 The audited consolidated balance sheets and the related consolidated statements of
25 operations, shareholders' equity (deficit) and cash flow for the years ended December 31, 1998,
26 1999 and 2000, of the Parent and its subsidiaries are filed with the SEC and incorporated herein
27 by reference. This financial information is provided to permit the holders of Claims and Equity
28

1 Interests to better understand the Debtor’s historical business performance and the impact of the
2 Chapter 11 Case on the Debtor’s business.

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

10 IX. SECURITIES LAWS MATTERS

11 Section 1145(a) of the Bankruptcy Code generally exempts from the registration
12 requirements of the Securities Act and equivalent state securities laws the issuance of securities
13 if the following conditions are satisfied: (i) the securities are issued by a debtor (or its successor)
14 under and plan; (ii) the recipients of the securities hold a claim against, an interest in, or claim
15 for an administrative expense against the debtor; and (iii) the securities are issued entirely in
16 exchange for the recipient’s claim against or interest in the debtor, or are issued principally in
17 such exchange and partly for cash or property. The Commission believes that the debt and
18 equity securities to be issued by the Reorganized Debtor pursuant to the Commission’s Plan do
19 not fall within the exception provided in section 1145(a) of the Bankruptcy Code in that such
20 securities will be issued and sold other than in satisfaction of claims against or interests in the
21 Debtor.

22 X. CERTAIN RISK FACTORS TO BE CONSIDERED

23 **HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE**
24 **DEBTOR SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET**
25 **FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS**
26 **DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER**
27 **HEREWITH AND/OR INCORPORATED BY REFERENCE HEREIN), PRIOR TO**
28 **VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD**
NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS
INVOLVED IN CONNECTION WITH THE COMMISSION’S PLAN AND ITS
IMPLEMENTATION.

1 **A. Certain Bankruptcy Law Considerations**

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

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

10 **2. Nonconsensual Confirmation.**

11 In the event one or more impaired Classes of Claims or Equity Interests does not accept
12 the Plan, the Bankruptcy Court may nevertheless confirm the Plan at the Commission's request if
13 all other conditions for confirmation have been met and at least one impaired Class has accepted
14 the Plan (such acceptance being determined without including the vote of any "insider" in such
15 Class) and, as to each impaired Class that has not accepted the Plan, if the Bankruptcy Court
16 determines that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect
17 to the rejecting impaired classes, as described in Section VII.C.2 of the Disclosure Statement.
18 The Commission believes that the Plan satisfies these requirements.

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

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

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

2 **1. Creditworthiness Risks.**

3 The creditworthiness of the Reorganized Debtor is a function of both qualitative and
4 quantitative factors. Upon the Effective Date, the Commission believes the credit profile of the
5 Reorganized Debtor will be consistent with that of an investment-grade company. To the extent
6 that such ratings depend ultimately on the partly subjective evaluations of independent credit-
7 rating agencies, the Commission cannot state with certainty what rating such agencies will assign
8 to the Reorganized Debtor. However, the Commission is committed to policies and mechanisms
9 to allow PG&E to experience predictable cash flows, which are important qualitative factors
10 rating agencies consider when assigning credit ratings. The Commission's Plan is contingent
11 upon the Reorganized Debtor receiving an investment grade rating from each of S&P and
12 Moody's on the Effective Date.

13 **2. New Secured Credit Facility.**

14 It is assumed that pursuant to the Commission's Plan, the Reorganized Debtor will enter
15 into a New Secured Credit Facility, consisting of a new revolving Credit Facility and capital
16 expenditure Sub-Facility. The Commission believes the Credit Facility will amount to
17 approximately \$1.9 billion and will be used for the purposes of funding operating expenses and
18 seasonal fluctuations of capital. The Sub-Facility will total approximately \$500 million. The
19 Credit Facility will have a carve out of approximately \$955 million for letters of credit, which
20 may be needed to post collateral for workers' compensation liabilities; the remainder will be
21 available for general working capital and liquidity purposes. The Debtor is projected to have, as
22 of January 2003, approximately \$1.9 billion in accounts receivable and inventory available as
23 collateral, however, the Commission cannot guarantee that the Reorganized Debtor will be able
24 to enter into the New Secured Credit Facility or another credit facility on substantially the same
25 terms. In such case, the Reorganized Debtor may be unable to meet operating expenses and
26 working capital requirements.³³

27 ³³ Additional sources of capital, which may offset the size of the Credit Facility, may be realized from the sale
28 of non-core assets in the amount of approximately \$200 million. In addition, the capital expenditure Sub-
Facility may be reduced while not impairing the feasibility of the Commission's Plan.

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

2 It is assumed that pursuant to the Commission’s Plan, the Reorganized Debtor will issue
3 approximately \$3.86 billion of Reorganized Debtor New Money Notes. The Reorganized Debtor
4 New Money Notes will be priced at rates that reflect the credit rating, credit profile and market
5 conditions at the time of issuance. The Commission believes the credit profile will be
6 comparable to an investment-graded credit so that the Reorganized Debtor will be able to tap the
7 investment-grade market to sell the Reorganized Debtor New Money Notes, but there can be no
8 assurances that the Reorganized Debtor will have access to this market which could diminish the
9 value of the Reorganized Debtor New Money Notes, in which case the Reorganized Debtor may
10 be unable to raise a sufficient amount of Cash under the Reorganized Debtor New Money Notes
11 sale to satisfy all Allowed Claims.

12 **4. Sale of Equity.**

13 The Commission’s Plan contemplates the sale of approximately \$1.75 billion of equity.
14 The Commission believes there is ample equity value in the Reorganized Debtor to issue such
15 equity to partially fund its Plan. However, the Reorganized Debtor may be unable to raise a
16 sufficient amount of Cash under the equity offering to satisfy all Allowed Claims.

17 **5. Interest Rate Risk.**

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

24 **C. Tax Risks**

25 For a summary of certain federal income tax consequences of the Plan to the Parent, the
26 Debtor, and to certain holders of Claims and Equity Interests, see Section XII of the Disclosure
27 Statement, “Certain Federal Income Tax Consequences of the Commission’s Plan.”
28

1 **XI. DESCRIPTION OF CERTAIN CLAIMS³⁴**

2 **A. Pollution Control Bonds**

3 **1. General.**

4 Pursuant to the terms of various separate trust indentures (each, an “Indenture” and,
5 collectively, the “Indentures”) each between the California Pollution Control Financing
6 Authority, a public instrumentality and political subdivision of the State of California (the
7 “Issuer”) and Bankers Trust Company, as trustee, or U.S. Bank Trust National Association, as
8 trustee (each a “Bond Trustee”), as applicable, and various corresponding loan agreements with
9 the Debtor, as of the Petition Date of the Chapter 11 Case, the Issuer had issued and outstanding
10 each of the following 15 series of revenue bonds (defined collectively in the Plan as, the “PC
11 Bonds”) in the original aggregate principal amount of \$1.69 billion as set forth below:

12	<u>Series</u>	<u>Original Principal Amount</u>
13	California Pollution Control Financing	\$35,000,000
14	Authority, 6 5/8% Pollution Control Revenue	
15	Bonds (Pacific Gas and Electric Company)	
15	1992 Series A (the “ <u>92A Bonds</u> ”)	
16	California Pollution Control Financing	\$50,000,000
17	Authority, 6.35% Pollution Control Revenue Bonds	
17	(Pacific Gas and Electric Company) 1992	
18	Series B (the “ <u>92B Bonds</u> ”)	
19	California Pollution Control Financing	\$60,000,000
20	Authority, 5 7/8% Pollution Control Revenue Bonds	
20	(Pacific Gas and Electric Company) 1993	
21	Series A (the “ <u>93A Bonds</u> ”)	
22	California Pollution Control Financing	\$200,000,000
22	Authority, 5.85% Pollution Control Revenue Bonds	
23	(Pacific Gas and Electric Company) 1993	
23	Series B (the “ <u>93B Bonds</u> ”)	
24	California Pollution Control Financing	\$200,000,000
25	Authority, Pollution Control Refunding Revenue Bonds	
25	(Pacific Gas and Electric Company) \$200,000,000 1996	
26	Series A (the “ <u>MBIA Insured PC Bonds</u> ”)	

27 ³⁴ 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	<u>Series</u>	<u>Original Principal Amount</u>
2	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
3		
4		
5	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
6		
7		
8	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
9		
10		
11	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
12		
13		
14	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
15		
16		
17	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
18		
19		
20	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
21		
22		
23	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
24		
25		
26	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
27		
28		

1	<u>Series</u>	<u>Original Principal Amount</u>
2	California Pollution Control Financing	\$17,900,000
3	Authority, Pollution Control Refunding	
4	Revenue Bonds (Pacific Gas and Electric Company) 1997 Series D (the “ <u>97D Bonds</u> ”)	

5 Any series of 96C Bonds, 96E Bonds, 96F Bonds and/or 97B Bonds that remain
6 outstanding on the Voting Record Date or the Effective Date, as applicable, are defined
7 collectively in the Commission’s Plan as the “Letter of Credit Backed PC Bonds.” The 92A
8 Bonds, 92B Bonds, 93A Bonds and the 93B Bonds are defined collectively in the Plan as the
9 “Mortgage Backed PC Bonds.” The 96B Bonds, 96D Bonds, 97A Bonds and the 97C Bonds,
10 together with any series of 96C Bonds, 96E Bonds, 96F Bonds and/or 97B Bonds that have been
11 redeemed in whole, but not in part, as of the Voting Record Date or the Effective Date, as
12 applicable, are defined collectively in the Plan as the “Prior Bonds.” The 96G Bonds and the
13 97D Bonds are defined collectively in the Plan as the “Treasury PC Bonds.”

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

25 Pursuant to the terms of each of the Indentures, the Issuer has assigned to the Bond
26 Trustee, for the benefit of the holders of the respective series of PC Bonds, certain of the Issuer’s
27 rights under the various Loan Agreements, including, but not limited to, the Issuer’s right under
28

1 the Loan Agreements to receive payments from the Debtor of the principal of, premium, if any,
2 and interest due, on the Bond Loans. In this manner, the Issuer has acted solely as a conduit,
3 loaning the proceeds from the sale of the PC Bonds to the Debtor and assigning its right to
4 receive repayment of such loans to the Bond Trustee as security for the PC Bonds and to provide
5 funds for the full payment of the respective PC Bonds.

6 The PC Bonds are special limited obligations of the Issuer payable exclusively out of the
7 trust estates under each of the Indentures. None of the PC Bonds constitute a debt or liability, or
8 a pledge of the faith, credit or taxing power of the Issuer, the State of California or any of its
9 instrumentalities or political subdivisions. Each series of PC Bonds is a limited obligation of the
10 Issuer payable solely from the revenues derived by the Issuer from the Debtor pursuant to the
11 terms of the related Loan Agreement to the extent pledged by the Issuer to the Bond Trustee
12 under the terms of the applicable Indenture and from certain other funds pledged and assigned as
13 part of the trust estates under the applicable Indentures.

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

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

26 **2. Mortgage Backed PC Bonds.**

27 With respect to each series of Mortgage Backed PC Bonds, in order to secure its
28 obligation to repay the Bond Loan made by the Issuer to the Debtor of the proceeds from the sale

1 of the Mortgage Backed PC Bonds, the Debtor delivered to the Bond Trustee certain of its First
2 and Refunding Mortgage Bonds (defined in the Plan as the “Mortgage Bonds”) in an aggregate
3 principal amount equal to the related series of Mortgage Backed PC Bonds. Each series of
4 Mortgage Bonds delivered to the Bond Trustee to secure a series of Mortgage Backed PC Bonds
5 provides for payments on such Mortgage Bonds at the times and in the amounts necessary to
6 allow the Bond Trustee to make full and timely payment of the principal of, premium, if any, and
7 interest on the related series of Mortgage Backed PC Bonds.

8 Each series of underlying Mortgage Bonds securing Mortgage Backed PC Bonds, was
9 issued under and secured by the Debtor’s First and Refunding Mortgage dated December 1,
10 1920, as supplemented and amended (defined in the Plan as the “Mortgage”), which constituted a
11 first mortgage lien upon all real property and a security interest in substantially all personal
12 property of the Debtor *pari passu* with the security interest of all other First and Refunding
13 Mortgage Bonds issued thereunder, subject to certain exceptions, including certain tax liens and
14 certain liens existing on property at the time such property was acquired by the Debtor.

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

16 With respect to each series of Letter of Credit Backed PC Bonds, the Debtor has entered
17 into a reimbursement agreement (each defined in the Plan as a “Reimbursement Agreement”)
18 with a bank (each defined in the Plan as a “Letter of Credit Issuing Bank”) and certain banking
19 or other financial institutions (each a “Bank”) pursuant to which the Letter of Credit Issuing
20 Bank has issued its irrevocable letter of credit (each defined in the Plan as a “Letter of Credit”) to
21 the Bond Trustee, for the account of the Debtor, to provide for the payment of the principal of
22 and interest on the related series of Letter of Credit Backed PC Bonds and to support the
23 payment of the purchase price of any Letter of Credit Backed PC Bonds tendered for purchase in
24 accordance with the terms of the applicable Indenture. Under the terms of each Reimbursement
25 Agreement, the Debtor is obligated to reimburse the Letter of Credit Issuing Bank for, among
26 other things, all amounts drawn on the related Letter of Credit.

27 Each Letter of Credit was issued in an initial stated amount (the “Stated Amount”) equal
28 to the sum of (i) the aggregate outstanding principal amount of the related series of Letter of

1 Credit Backed PC Bonds (the “Principal Portion”), plus (ii) an amount equal to the amount of
2 accrued interest on the outstanding principal amount of the related series of Letter of Credit
3 Backed PC Bonds at an assumed maximum annual rate for a specified period of days as set forth
4 in the Letter of Credit (the “Interest Portion”). The Stated Amount of each Letter of Credit is
5 reduced by the amount of each drawing paid thereunder, subject to the provision that (i) with
6 respect to amounts drawn for the payment of interest on the related Letter of Credit Backed PC
7 Bonds, the Interest Portion of the Stated Amount is automatically reinstated unless the Letter of
8 Credit Issuing Bank gives notice to the contrary to the Bond Trustee in accordance with the
9 terms of the applicable Letter of Credit, and (ii) with respect to amounts drawn to pay the
10 purchase price of Letter of Credit Backed PC Bonds, the amount so drawn is subject to
11 reinstatement upon the terms set forth in the applicable Letter of Credit.

12 Under the terms of each of the Indentures pursuant to which each series of Letter of
13 Credit Backed PC Bonds were issued, each regularly scheduled payment of the principal of, or
14 interest on, the Letter of Credit Backed PC Bonds is made from moneys drawn by the Bond
15 Trustee under the related Letter of Credit. The obligation to the Debtor to repay the loan under
16 the Loan Agreement is deemed satisfied to the extent of any corresponding payment made by the
17 Letter of Credit Issuing Bank under the terms of the Letter of Credit. With respect to each such
18 drawing, the Debtor is then obligated to reimburse the Letter of Credit Issuing Bank for the
19 amount of such drawing. Only if the Letter of Credit Issuing Bank dishonors a drawing or there
20 is no Letter of Credit then in effect, is the Bond Trustee authorized under the terms of the
21 Indenture to collect Bond Loan payments due under the respective Loan Agreement directly
22 from the Debtor and apply such funds to the payment of the principal of, or interest on, the
23 related Letter of Credit Backed PC Bonds.

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

1 **4. MBIA Insured PC Bonds.**

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

7 The PC Bond Insurance Policy unconditionally and irrevocably guarantees the full and
8 complete payment required to be made by or on behalf of the Issuer to the Bond Trustee of an
9 amount equal to (i) the principal of and interest on the MBIA Insured PC Bonds as such
10 payments shall become due but shall not be so paid (except that in the event of any acceleration
11 of the due date of such principal by reason of mandatory or optional redemption or acceleration
12 resulting from default or otherwise, other than any advancement of maturity pursuant to a
13 mandatory sinking fund payment or mandatory redemption upon the occurrence of a
14 determination of taxability of the MBIA Insured PC Bonds, the payment guarantee by the PC
15 Bond Insurance Policy shall be made in such amounts and at such times as such payments of
16 principal would have been due had there not been any such acceleration); and (ii) the
17 reimbursement of any such payment which is subsequently recovered from any owner of MBIA
18 Insured PC Bonds pursuant to a final judgment by a court of competent jurisdiction that such
19 payment constitutes an avoidable preference to such owner within the meaning of any applicable
20 bankruptcy law. Accordingly, since the Petition Date, all regularly scheduled payments of the
21 principal of, and interest on, the MBIA Insured PC Bonds have been fully and timely made when
22 due from monies paid to the Bond Trustee by MBIA under the terms of the PC Bond Insurance
23 Policy and in accordance with the terms of the related indenture.

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

1 **5. Prior Bonds.**

2 With respect to each series of Prior Bonds, the Debtor entered into a reimbursement
3 agreement (each defined in the Plan as a “Prior Reimbursement Agreement”) with a national
4 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
5 (each defined in the Plan as a “Prior Letter of Credit”) to the Bond Trustee, for the account of the
6 Debtor, to secure the payment of the principal of and interest on the related series of Prior Bonds
7 and to provide for the payment of the purchase price of such Prior Bonds tendered for purchase
8 in accordance with the terms of the applicable Indenture. Under the terms of each Prior
9 Reimbursement Agreement, the Debtor was obligated to reimburse the Prior Letter of Credit
10 Issuing Bank for, among other things, all amounts drawn on the related Prior Letter of Credit.
11

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

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

25 With respect to each series of Prior Bonds, under the terms of the respective Prior
26 Reimbursement Agreement the Debtor is obligated to reimburse the respective Prior Letter of
27 Credit Issuing Bank for, among other things, the amount drawn under the related Prior Letter of
28 Credit which was applied to the payment of the redemption price of the Prior Bonds (that portion

1 of the reimbursement obligation of the Debtor under the Prior Reimbursement Agreement arising
2 with respect to the portion of the final drawing made under the related Prior Letter of Credit for
3 the payment of the principal portion of the redemption price of the related series of Prior Bonds,
4 referred to in the Plan as the “Reimbursement Obligation”).

5 **6. Treasury PC Bonds.**

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

9 While the Treasury PC Bonds are held by the Debtor, payments of principal or interest
10 made by the Debtor under the terms of each of the related Loan Agreements are returned to the
11 Debtor in the form of payments of principal or interest on the related series of Treasury PC
12 Bonds.

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

24 **XII. CERTAIN FEDERAL INCOME TAX 25 CONSEQUENCES OF THE COMMISSION’S PLAN**

26 **A. Introduction**

27 The following discussion summarizes certain federal income tax consequences of the
28 implementation of the Commission’s Plan to the Debtor and certain holders of Claims and

1 Equity Interests. The following summary does not address the federal income tax consequences
2 to holders whose Claims are entitled to reinstatement or are unimpaired under the Plan, e.g.,
3 holders of Administrative Expense Claims, Professional Compensation and Reimbursement
4 Claims, Priority Tax Claims, Other Priority Claims, Other Secured Claims, Secured Claims
5 Relating to First and Refunding Mortgage Bonds, Mortgage Backed PC Bond Claims, MBIA
6 Insured PC Bond Claims, Letter of Credit Backed PC Bond Claims, Prior Bond Claims, Treasury
7 PC Bond Claims, Environmental, Fire Suppression, Tort and FERC License Claims,
8 Convenience Claims and Workers' Compensation Claims). Additionally, this summary does not
9 address the federal income tax consequences to holders of MBIA Claims and Letter of Credit
10 Bank Claims as it is the Commission's understanding that such holders have retained separate
11 counsel to advise them with respect thereto.

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

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

27 ACCORDINGLY, THE FOLLOWING SUMMARY OF CERTAIN FEDERAL
28 INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS

1 NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON
2 THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM OR
3 EQUITY INTEREST. ALL HOLDERS OF CLAIMS AND EQUITY INTERESTS ARE
4 URGED TO CONSULT THEIR OWN TAX ADVISORS FOR THE FEDERAL, STATE,
5 LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE
6 COMMISSION'S PLAN.

7 **B. Consequences to the Debtor**

8 The Proponent does not expect that implementation of the Commission's Plan will create
9 a federal tax liability or a tax refund for the Debtor.

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

11 The payment in full of Allowed Claims in Cash pursuant to the Commission's Plan
12 should not create tax consequences that differ materially from those that would have obtained
13 had those claims been repaid, absent a plan of bankruptcy, in the ordinary course of the Debtor's
14 business. If, however, a holder of an Allowed Claim were to accept less than full payment in
15 satisfaction of a debt, the Debtor would, for federal income tax purposes, realize cancellation of
16 indebtedness income ("COD Income"). A debtor in a bankruptcy case generally does not
17 include COD Income in its gross income, but rather must reduce certain tax attributes, to the
18 extent it has such attributes to reduce, by the amount of COD Income that otherwise would have
19 been recognized. The Commission, however, does not anticipate that the Debtor will realize
20 COD Income from the implementation of the Commission's Plan.

21 **2. Issuance of Common Stock and Reorganized Debtor New Money Notes.**

22 In general, for federal income tax purposes, a corporation does not recognize gain or loss
23 on the receipt of cash or other property in exchange for its own stock. Therefore, the sale of
24 Common Stock by the Reorganized Debtor in a public or private offering, pursuant to the
25 Commission's Plan, should not be a taxable event.

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

1 **3. Treatment of Escrow(s) with Respect to Disputed Chromium Litigation**
2 **Claims.**

3 Pursuant to the Commission's Plan, one or more escrows will be established to hold any
4 amounts that would otherwise be distributable to holders of Disputed Chromium Litigation
5 Claims. Such escrow(s) will be separate from any escrows established with respect to other
6 Disputed Claims.

7 Subject to definitive guidance from the IRS or a court of competent jurisdiction to the
8 contrary (including the receipt by the Disbursing Agent of a private letter ruling, or the receipt of
9 an adverse determination by the IRS upon audit if not contested by the Disbursing Agent), the
10 Disbursing Agent shall treat each escrow established with respect to Disputed Chromium
11 Litigation Claims as a "qualified settlement fund" within the meaning of Treasury Regulation
12 Section 1.468B-1, and all holders of Claims are required by the Commission's Plan to report
13 consistently with such treatment. It is the understanding of the Commission that the Debtor
14 currently intends to request a private letter ruling confirming such treatment.

15 So treated, each such escrow will be subject to a separate entity level tax at the maximum
16 rate applicable to trusts and estates (currently 39.6%). In determining the taxable income of each
17 escrow, (a) any amounts transferred by the Reorganized Debtor to the escrow (other than with
18 respect to the accrual of interest on the notes) would be excluded from its income and
19 (b) administrative costs (including state and local taxes) incurred by the escrow would be
20 deductible.

21 Any taxes payable by the escrow would be funded by the Reorganized Debtor. However,
22 the Reorganized Debtor would be entitled to a current federal income tax deduction for all
23 transfers of cash to the escrow to the same extent it would have been entitled to a deduction if
24 such amounts had been paid directly to the holder of a Disputed Chromium Litigation Claim.

25 In contrast, the Commission believes that any escrows established with respect to
26 Disputed Claims other than Disputed Chromium Litigation Claims should not be treated as a
27 separate taxable entity for federal income tax purposes, and that any amounts held by such
28 escrows should be treated as continually held by the Reorganized Debtor.

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

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

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

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

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

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

1 **2. Distributions in Discharge of Accrued Interest.**

2 In general, to the extent that any amount received by a holder of a Claim is received in
3 satisfaction of accrued interest or accrued original issue discount (“OID”) during its holding
4 period (including Post-Petition Interest), such amount will be taxable to the holder as interest
5 income (if not previously included in the holder’s gross income). Conversely, a holder generally
6 recognizes a deductible loss to the extent any accrued interest claimed was previously included
7 in its gross income and is not paid in full. However, the IRS has privately ruled that a holder of a
8 security, in an otherwise tax-free exchange, could not claim a current deduction with respect to
9 any unpaid OID.

10 Accordingly, it is unclear whether, by analogy, a holder of a Claim with previously
11 included OID that is not paid in full would be required to recognize a capital loss rather than an
12 ordinary loss.

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

14 **1. Preferred Stock Equity Interests.**

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

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

25 A distribution to a corporate shareholder which is treated as a dividend for federal income
26 tax purposes may qualify for the seventy percent (70%) dividends-received-deduction. Dividend
27 income that is not subject to regular federal income tax as a consequence of the dividends-
28 received-deduction may be subject to the federal alternative minimum tax. The dividends-

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

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

15 **2. Common Stock Equity Interests.**

16 **(a) Continued Inclusion of Debtor in Parent Affiliated Group**

17 The Debtor and its subsidiaries are members of the Parent Affiliated Group for Federal
18 income tax purposes. After the issuance and sale of equity interests in the Debtor, if, as
19 expected, the Parent owns at least 80 percent of the value of the Debtor's Common Stock and
20 stock possessing at least 80 percent of the voting power of the Debtor's outstanding voting stock,
21 then the Reorganized Debtor and its subsidiaries will continue to be included in the Parent
22 Affiliated Group. Further, the Parent would not recognize any income as a result of such
23 issuance of equity interests. If the Reorganized Debtor were to issue an amount of its stock
24 representing more than 20 percent (by either vote or value) of its outstanding stock, the
25 Reorganized Debtor and its Subsidiaries would cease to be members of the Parent Affiliated
26 Group. The departure of members from an affiliated group of corporations filing a consolidated
27 Federal income tax return can have adverse tax consequences for both the departing members
28 and the remaining group members, including the parent corporation. The Commission, however,

1 expects that the Reorganized Debtor's equity issuance under the Plan would allow it to continue
2 to be treated as a member of the Parent Affiliated Group.

3 **(b) New Tax Sharing Agreement with Reorganized Debtor**

4 The New Tax Sharing Agreement will utilize a formula for payments by the Reorganized
5 Debtor to the Parent, and from the Parent to the Reorganized Debtor, that differs from that set
6 forth in the Existing Tax Matters Agreement. Accordingly, there could be circumstances in
7 which the Parent is entitled to receive payments from the Reorganized Debtor that are less than
8 the amount that would have been payable under the Existing Tax Matters Agreement. Further,
9 the Existing Tax Matters Agreement does not obligate the Parent to make any payment to the
10 Reorganized Debtor and its Subsidiaries, even where the Parent avoids tax payments by using
11 tax benefits (such as net operating losses) generated by the Reorganized Debtor and its
12 subsidiaries to reduce the amount otherwise payable by the Parent Group. The Commission
13 expects the New Tax Sharing Agreement to require the Parent to make payments to the
14 Reorganized Debtor in an amount equal to the tax refund that the Reorganized Debtor would
15 have received from the Internal Revenue Service if the Reorganized Debtor and its Subsidiaries
16 were not part of the Parent Group and instead filed a separate consolidated return for all periods
17 from and after January 1, 1998. Further, the Commission expects that the New Tax Sharing
18 Agreement will provide that, promptly after execution of the Agreement, the Parent and the
19 Reorganized Debtor will determine whether the previous tax sharing payments to and from the
20 Parent would have been different if the Agreement had been in effect from and after such date,
21 and an appropriate payment will be made (without interest) to or from the Parent to reflect the
22 additional amount that would have been paid if all tax sharing payments had been calculated on
23 this basis for all taxable years beginning January 1, 1998.

24 **E. Information Reporting And Withholding**

25 All distributions to holders of Allowed Claims and Equity Interests under the Plan are
26 subject to any applicable withholding (including employment tax withholding). Under federal
27 income tax law, interest, dividends, and other reportable payments may, under certain
28 circumstances, be subject to "backup withholding" (currently at a rate of twenty-seven percent

1 (27%)). Backup withholding generally applies if the holder (a) fails to furnish its social security
2 number or other taxpayer identification number (“TIN”), (b) furnishes an incorrect TIN, (c) fails
3 properly to report interest or dividends, or (d) under certain circumstances, fails to provide a
4 certified statement, signed under penalty of perjury, that the TIN provided is its correct number
5 and that it is not subject to backup withholding. Backup withholding is not an additional tax but
6 merely an advance payment, which may be refunded to the extent it results in an overpayment of
7 tax. Certain Persons are exempt from backup withholding, including, in certain circumstances,
8 corporations and financial institutions.

9 **THE FOREGOING SUMMARY HAS BEEN PROVIDED FOR**
10 **INFORMATIONAL PURPOSES ONLY. ALL HOLDERS OF CLAIMS AND EQUITY**
11 **INTERESTS ARE URGED TO CONSULT THEIR TAX ADVISORS CONCERNING**
12 **THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES**
13 **APPLICABLE UNDER THE COMMISSION’S PLAN.**

14 **XIII. ALTERNATIVES TO CONFIRMATION AND**
15 **CONSUMMATION OF THE COMMISSION’S PLAN**

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

19 **A. Liquidation Under Chapter 7**

20 If no chapter 11 plan can be confirmed, the Chapter 11 Case may be converted to a case
21 under chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to
22 liquidate the assets of the Debtor. A discussion of the effect that a chapter 7 liquidation would
23 have on the recoveries of holders of Claims and Equity Interests is set forth in Section VII.C.4.
24 of this Disclosure Statement. The Commission believes that liquidation under chapter 7 would
25 result in, among other things, (i) smaller distributions being made to creditors than those
26 provided for in the Plan because of additional administrative expenses attendant to the
27 appointment of a trustee and the trustee’s employment of attorneys and other professionals,
28 (ii) additional expenses and claims, some of which would be entitled to priority, which would be

1 generated during the liquidation and from the rejection of leases and other executory contracts in
2 connection with a cessation of the Debtor's operations and (iii) the failure to realize the greater
3 going concern value of the Debtor's assets.

4 **B. Alternative Plan Of Reorganization**

5 If the Commission's Plan is not confirmed, the PG&E Plan, or a different plan formulated
6 by the Debtor or the Commission or any other party in interest could be proposed. Such a plan
7 might involve either a reorganization and the disaggregation of the Debtor's business, as
8 proposed in the PG&E Plan, or an orderly liquidation of its assets. The Commission has
9 concluded that the Commission's Plan represents the best alternative to protect the interests of
10 creditors and other parties in interest.

11 **C. Liquidation Under Chapter 11**

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

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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 to indicate their preference for the Commission’s Plan over the PG&E Plan and to evidence such acceptance by returning their Ballots so that they will be received no later than 4:00 p.m., Eastern Time, on _____, 2002.

Dated: April 15, 2002

THE CALIFORNIA PUBLIC UTILITIES COMMISSION

By: /s/ Gary M. Cohen
Gary M. Cohen
General Counsel

APPROVED AS TO CONTENT AND FORM:
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INDEX OF DEFINED TERMS

	Page	Page
1		
2		
3	92A Bonds..... 130	Issuer 130
4	92B Bonds..... 130	kV 33
5	93A Bonds..... 130	LC Bank Agreement..... 58
6	93B Bonds..... 130	Letter of Credit 134
7	96B Bonds..... 131	Letter of Credit Backed PC Bonds..... 132
8	96C Bonds..... 131	Letter of Credit Issuing Bank 134
9	96D Bonds..... 131	Loan Agreement..... 132
10	96E Bonds..... 131	Loan Agreements 132
11	96F Bonds..... 131	March 18 Order 63
12	96G Bonds..... 131	March 27 Order 45
13	97A Bonds..... 131	MBIA 136
14	97B Bonds..... 131	MBIA Insured PC Bonds 130
15	97C Bonds..... 131	MBIA Reimbursement Agreement 136
16	97D Bonds..... 132	Mortgage 134
17	AB 40	Mortgage Backed PC Bonds 132
18	Aguayo Litigation 38	Mortgage Bonds 134
19	Bank 134	MVa..... 33
20	Bond Loan 132	MW..... 32
21	Bond Loans 132	New Secured Credit Facility 91
22	Bond Trustee 130	Nominee 9
23	Calpine QFs..... 53	NRC..... 34
24	Cash Collateral Order..... 16	OID..... 143
25	CCSF..... 63	Original Letter of Credit Fee 79
26	CEC 34	<u>Parent Affiliated Group</u> 92
27	Class 4e Stipulation..... 58	PC Bond Documents 133
28	COD Income 140	PC Bond Insurance Policy..... 136
	Commission..... 1	PC Bonds..... 130
	Commission Plan 1	Petition Date..... 1
	Committee 47	PG&E 1
	Committee Support Agreement..... 54	PG&E Disclosure Statement 2
	Competing Plans 2	PG&E Plan 2
	Confirmation Hearing 2	<u>Plan</u> 1
	Court..... 1	Post-Petition Interest 15
	Credit Facility..... 23, 91	Principal Portion..... 135
	Debtor..... 1	Prior Bonds..... 132
	Disclosure Statement..... 1	Prior Letter of Credit 137
	Disclosure Statement Order 3	Prior Letter of Credit Issuing Bank 137
	DWR..... 45	Prior Reimbursement Agreement..... 137
	Edison..... 36	Projection Period 122
	Environmental Order..... 86	<u>Projections</u> 122
	ESC..... 35	Proponents 2
	Exclusivity Objection..... 51	PX..... 34, 42
	February 7 Decision 59	QFs 32
	Forbearance, Extension and Letter of Credit Fees 79	Reimbursement Agreement..... 134
	headroom..... 6	Reimbursement Obligation 138
	IBEW..... 35	SEC..... 3
	Indenture..... 130	Sempra..... 56
	Indentures 130	Sempra Gas Agreements 56
	Interest Portion 135	Stated Amount..... 134
	ISO 33, 42	Sub-Facility 91
		Support Termination Event 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

Tax Code 139
TCBA 41
TIN 146
TRA 41
Treasury PC Bonds..... 132

TURN 36
URG Decision 64
Voting Agent 9
Voting Deadline 9
Voting Record Date..... 4

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 April 15, 2001]

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TABLE OF CONTENTS

	<u>Page</u>
1	
2	
3	ARTICLE I DEFINITIONS AND CONSTRUCTION OF TERMS 1
4	1.1 Definitions 1
5	1.2 Interpretation; Application of Definitions and Rules of Construction 28
6	ARTICLE II TREATMENT OF ADMINISTRATIVE EXPENSE CLAIMS, PROFESSIONAL COMPENSATION AND REIMBURSEMENT CLAIMS, AND PRIORITY TAX CLAIMS 28
7	2.1 Administrative Expense Claims 28
8	2.2 Professional Compensation and Reimbursement Claims 29
9	2.3 Priority Tax Claims 29
10	ARTICLE III CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS 30
11	ARTICLE IV TREATMENT OF CLAIMS AND EQUITY INTERESTS 31
12	4.1 Payment of Interest 31
13	4.2 Timing of Payments and Distributions 32
14	4.3 Class 1 - Other Priority Claims 33
15	4.4 Class 2 - Other Secured Claims 34
16	4.5 Class 3 - Secured Claims Relating to First and Refunding Mortgage Bonds 34
17	4.6 Class 4a - Mortgage Backed PC Bond Claims 35
18	4.7 Class 4b - MBIA Insured PC Bond Claims 35
19	4.8 Class 4c - MBIA Claims 36
20	4.9 Class 4d - Letter of Credit Backed PC Bond Claims 37
21	4.10 Class 4e - Letter of Credit Bank Claims 37
22	4.11 Class 4f - Prior Bond Claims 44
23	4.12 Class 4g - Treasury PC Bond Claims 45
24	4.13 Class 5 - General Unsecured Claims 46
25	4.14 Class 6 - ISO, PX and Generator Claims 46
26	4.15 Class 7 - ESP Claims 46
27	4.16 Class 8 Environmental, Fire Suppression, Tort and FERC License Claims 47
28	4.17 Class 9 - Chromium Litigation Claims 50
	4.18 Class 10 - Convenience Claims 50
	4.19 Class 11 - QUIDS Claims 50
	4.20 Class 12- Workers' Compensation Claims 50
	4.21 Class 13 - Preferred Stock Equity Interests 51
	4.22 Class 14 - Common Stock Equity Interests 52
	ARTICLE V PROVISIONS REGARDING VOTING AND DISTRIBUTIONS UNDER THE PLAN AND TREATMENT OF DISPUTED, CONTINGENT AND UNLIQUIDATED ADMINISTRATIVE EXPENSE CLAIMS, CLAIMS AND EQUITY INTERESTS 52
	5.1 Voting of Claims and Equity Interests 52
	5.2 Elimination of Vacant Classes 52
	5.3 Nonconsensual Confirmation 53
	5.4 Method of Distributions Under the Plan 53
	5.5 Objections to and Resolution of Administrative Expense Claims and Claims 56
	5.6 Payment of the Trustees', Issuer's and Certain Bank Fees 57
	5.7 Cancellation of Existing Securities and Agreements 58

1	ARTICLE VI EXECUTORY CONTRACTS AND UNEXPIRED LEASES.....	58
2	6.1 Assumption and Rejection of Executory Contracts and Unexpired Leases	58
3	6.2 Schedules of Rejected Executory Contracts and Unexpired Leases; Inclusiveness	59
4	6.3 Approval of Assumption or Rejection of Executory Contracts and Unexpired Leases	60
5	6.4 Cure of Defaults	60
6	6.5 Bar Date for Filing Proofs of Claim Relating to Executory Contracts and Unexpired Leases Rejected Pursuant to, or Omitted from, the Plan.....	60
7	6.6 Assumed Indemnification Obligations.....	61
8	6.7 Compensation and Benefit Programs.....	61
9	6.8 Retiree Benefits.....	61
10	ARTICLE VII IMPLEMENTATION OF THE PLAN	62
11	7.1 Issuance of Securities	62
12	7.2 Settlement of Litigation.....	63
13	7.3 New Tax Sharing Agreement. The Reorganized Debtor and the Parent shall have executed and delivered the New Tax Sharing Agreement.....	63
14	7.4 Corporate Governance.....	63
15	7.5 Regulatory Approvals	63
16	7.6 Working Capital Facility.....	63
17	7.7 Regulatory Issues	64
18	ARTICLE VIII CONFIRMATION AND EFFECTIVENESS OF THE PLAN.....	64
19	8.1 Conditions Precedent to Confirmation.....	64
20	8.2 Conditions Precedent to Effectiveness.....	64
21	8.3 Effect of Failure of Conditions.....	65
22	8.4 Waiver of Conditions	66
23	ARTICLE IX EFFECT OF CONFIRMATION OF PLAN.....	66
24	9.1 Term of Bankruptcy Injunction or Stays.....	66
25	9.2 Revesting of Assets	66
26	9.3 Operations Following Effective Date.....	66
27	9.4 Claims Extinguished	67
28	9.5 Discharge of Debtor	67
29	9.6 Injunction	67
30	ARTICLE X RETENTION OF JURISDICTION	68
31	ARTICLE XI MISCELLANEOUS PROVISIONS.....	69
32	11.1 Effectuating Documents and Further Transactions.....	69
33	11.2 Corporate Action.....	70
34	11.3 Exemption from Transfer Taxes	70
35	11.4 Releases by Debtor.....	70
36	11.5 Limited Release by Releasees	71
37	11.6 Exculpation.....	71
38	11.7 Termination of Committee.....	72
39	11.8 Fees and Expenses.....	72
40	11.9 Payment of Statutory Fees.....	73
41	11.10 Amendment or Modification of the Plan.....	73
42	11.11 Severability.....	73
43	11.12 Revocation or Withdrawal of the Plan	73
44	11.13 Binding Effect	74
45	11.14 Notices.....	74
46	11.15 Governing Law.....	75
47	11.16 Withholding and Reporting Requirements.....	76

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
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24
25
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27
28

11.17 Commission’s Plan Supplement..... 76
11.18 Exhibits/Schedules 76
11.19 Subrogation Rights..... 77

1 The California Public Utilities Commission (the “Commission”) proposes the
2 following plan of reorganization for Pacific Gas and Electric Company, a California corporation
3 (the “Debtor”), pursuant to section 1121 of title 11 of the United States Code, 11 U.S.C. §§ 101
4 *et seq.* (as amended from time to time, the “Bankruptcy Code”), and the Bankruptcy Court’s
5 Order dated March 11, 2002, terminating the Debtor’s exclusive right to file a plan¹:

6 **ARTICLE I**

7 **DEFINITIONS AND CONSTRUCTION OF TERMS**

8 **1.1 Definitions.** As used herein, the following terms have the respective
9 meanings specified below:

10 92A Bonds means those certain California Pollution Control Financing Authority,
11 6 5/8% Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1992 Series A
12 issued by the Issuer in the aggregate principal amount of \$35,000,000.

13 92B Bonds means those certain California Pollution Control Financing Authority,
14 6.35% Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1992 Series B
15 issued by the Issuer in the aggregate principal amount of \$50,000,000.

16 93A Bonds means those certain California Pollution Control Financing Authority,
17 5 7/8% Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1993 Series A
18 issued by the Issuer in the aggregate principal amount of \$60,000,000.

19 93B Bonds means those certain California Pollution Control Financing Authority,
20 5.85% Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1993 Series B
21 issued by the Issuer in the aggregate principal amount of \$200,000,000.

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24 ¹ In submitting this Plan and its accompanying Disclosure Statement, the Commission does not
25 waive any objections or defenses that the Commission or the State of California (as defined
26 below) may have to this Court’s jurisdiction over the Commission or the State based upon
27 the Eleventh Amendment to the United States Constitution or related principles of sovereign
28 immunity or otherwise, all of which are hereby reserved.

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.

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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

1 Claim” shall not, for any purpose under the Plan, include interest on such Administrative
2 Expense Claim or Claim, as the case may be, from and after the Petition Date.

3 Assumed Corporate Indemnities means all obligations of the Debtor, pursuant to
4 the Debtor’s articles of incorporation or bylaws, applicable state law or specific agreement, or
5 any combination of the foregoing, to defend or indemnify, or to reimburse or limit the liability
6 of, its present and any former officers, directors and/or employees who were officers, directors
7 and/or employees, respectively, on or after the Petition Date, solely in their capacities as officers,
8 directors and/or employees of the Debtor, against or with respect to any claims or obligations.

9 Assumed Indemnification Claims mean all Claims, if any, as to which the
10 claimant asserts rights based only upon the Assumed Corporate Indemnities.

11 Ballot means the form distributed to each holder of an Impaired Claim or Equity
12 Interest on which such holder shall indicate, among other things, acceptance or rejection of the
13 Plan and such holder’s preference as between this Plan and PG&E’s Plan.

14 Bank means, with respect to each Reimbursement Agreement, those certain
15 banking or other financial institutions that are signatories thereto (other than the Letter of Credit
16 Issuing Bank) and their respective successors and assigns.

17 Bankruptcy Code has the meaning set forth in the introduction to the Plan.

18 Bankruptcy Court means the United States Bankruptcy Court for the Northern
19 District of California having jurisdiction over the Chapter 11 Case.

20 Bankruptcy Rules means the Federal Rules of Bankruptcy Procedure as
21 promulgated by the United States Supreme Court under section 2075 of title 28 of the United
22 States Code and any Local Rules of the Bankruptcy Court.

23 Bond Loan means, with respect to each series of PC Bonds, the loan of the
24 proceeds from the sale of such series of PC Bonds made by the Issuer to the Debtor pursuant to
25 the terms of the respective Loan Agreement.

26 Bond Trustee means, with respect to the PC Bonds, Bankers Trust Company, a
27 state banking corporation organized under the laws of the State of New York, as trustee, or U.S.

1 Bank Trust National Association, as trustee, under the Indenture pursuant to which such PC
2 Bonds were issued, as applicable, and their successors and assigns or any successor trustee under
3 such Indentures appointed in accordance with the terms thereof.

4 Business Day means any day other than a Saturday, Sunday or any other day on
5 which commercial banks in San Francisco, California or New York, New York are required or
6 authorized to close by law or executive order.

7 Cash means legal tender of the United States of America.

8 Cause of Action means, without limitation, any and all actions, causes of action,
9 liabilities, obligations, rights, suits, damages, judgments, claims and demands whatsoever,
10 whether known or unknown, existing or hereafter arising, in law, equity or otherwise, based in
11 whole or in part upon any act or omission or other event occurring prior to the Petition Date or
12 during the course of the Chapter 11 Case, including through the Effective Date.

13 Chapter 11 Case means the case under chapter 11 of the Bankruptcy Code
14 commenced by the Debtor in the Bankruptcy Court on April 6, 2001 and filed under Chapter 11
15 Case No. 01-30923-DM.

16 Chromium Litigation means Causes of Action against the Debtor relating to
17 alleged chromium contamination, including, but not limited to, the following fifteen (15) civil
18 actions pending in California courts: (i) Aguayo v. Pacific Gas and Electric Company, filed
19 March 15, 1995 in Los Angeles County Superior Court, (ii) Aguilar v. Pacific Gas and Electric
20 Company, filed October 4, 1996 in Los Angeles County Superior Court, (iii) Acosta, et al. v.
21 Betz Laboratories, Inc. et al., filed November 27, 1996 in Los Angeles County Superior Court,
22 (iv) Adams v. Pacific Gas and Electric Company and Betz Chemical Company, filed July 25,
23 2000 in Los Angeles County Superior Court, (v) Baldonado v. Pacific Gas and Electric
24 Company, filed October 25, 2000 in Los Angeles Superior Court, (vi) Gale v. Pacific Gas and
25 Electric Company, filed January 30, 2001 in Los Angeles County Superior Court, (vii) Monice v.
26 Pacific Gas & Electric Company, filed March 15, 2001 in San Bernardino County Superior
27 Court, (viii) Fordyce v. Pacific Gas & Electric Company, filed March 16, 2001 in San
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1 Bernardino County Superior Court, (ix) Puckett v. Pacific Gas & Electric Company, filed
2 March 30, 2001 in Los Angeles County Superior Court, (x) Alderson, et al. v. PG&E
3 Corporation, Pacific Gas and Electric Company, Betz Chemical Company, et al., filed April 11,
4 2001 in Los Angeles County Superior Court, (xi) Bowers et al. v. Pacific Gas and Electric
5 Company, et al., filed April 20, 2001 in Los Angeles County Superior Court, (xii) Boyd et al. v.
6 Pacific Gas and Electric Company, et al., filed May 2, 2001 in Los Angeles County Superior
7 Court, (xiii) Martinez et al. v. Pacific Gas and Electric Company, filed June 29, 2001 in
8 Los Angeles County Superior Court, (xiv) Kearny v. Pacific Gas and Electric Company, filed
9 November 15, 2001 in Los Angeles County Superior Court, and (xv) Miller v. Pacific Gas and
10 Electric Company, filed November 21, 2001 in Los Angeles County Superior Court.

11 Chromium Litigation Claims means all Claims against the Debtor arising from the
12 Chromium Litigation for damages or other obligations, including Punitive Damages; provided,
13 however, that Chromium Litigation Claims shall not include (a) any Claims, settled, liquidated or
14 determined by Final Order or a binding award, agreement or settlement prior to the Petition Date
15 for amounts payable by the Debtor for damages or other obligations in a fixed dollar amount
16 payable in a lump sum or by a series of payments (which Claims are classified as General
17 Unsecured Claims), (b) Environmental Claims, (c) Fire Suppression Claims, (d) Tort Claims, or
18 (e) FERC License Claims.

19 Claim has the meaning set forth in section 101(5) of the Bankruptcy Code,
20 provided, however, that any claim based on allocations under CPUC Electric Rule 20, Section A,
21 relating to undergrounding of electric distribution facilities, shall not be a Claim for purposes of
22 this Plan and shall pass through the Plan unaffected.

23 Claims Against the State means all Causes of Action listed on the Schedule of
24 Claims Against the State to be filed as part of the Commission's Plan Supplement, which shall
25 comprise all Causes of Action of the Debtor against the State of California, the Commission,
26 and/or any of their commissioners, officers or employees (in their official capacities), resulting
27 from actions (or inactions) of the State of California and the Commission relating to the recovery
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1 of transition costs, the failure to conclude timely that the conditions for ending the rate freeze
2 had been satisfied, and/or the Debtor's claimed inability to recover in retail rates its wholesale
3 power procurement costs, including, without limitation, the Rate Recovery Litigation.

4 Class means a category of holders of Claims against or Equity Interests in the
5 Debtor as set forth in Articles III and IV of the Plan.

6 Clerk means the Clerk of the Bankruptcy Court.

7 Collateral means any property or interest in property of the estate of the Debtor
8 subject to a Lien to secure the payment or performance of a Claim, which Lien is not subject to
9 avoidance or otherwise invalid under the Bankruptcy Code or applicable state law.

10 Commercial Paper means short-term promissory notes of the Debtor bearing
11 various interest rates based on the three (3) month London InterBank Offered Rate and issued
12 under commercial paper dealer agreements between the Debtor and (i) Goldman Sachs & Co.,
13 dated May 30, 1997, (ii) Bank of America, N.A., dated February 7, 1985, (iii) Salomon Smith
14 Barney, Inc., dated November 10, 2000, and (iv) Merrill Lynch, Pierce, Fenner & Smith
15 Incorporated (oral agreement).

16 Commercial Paper Claim means all Claims against the Debtor arising from
17 Commercial Paper.

18 Commission has the meaning set forth in the introduction to the Plan.

19 Commission's Plan Supplement means the documents, schedules and other
20 instruments to be filed with the Bankruptcy Court in accordance with section 11.17 of the Plan,
21 as amended, modified or supplemented from time to time.

22 Committee means the official Committee of Unsecured Creditors appointed in the
23 Chapter 11 Case by the United States Trustee pursuant to section 1102 of the Bankruptcy Code,
24 as reconstituted from time to time. As of the date hereof, the Committee is comprised of Reliant
25 Energy, Inc., Dynegy Power Marketing, Inc., P-E Berkeley, Inc., GWF Power Systems
26 Company, Inc., Bank of America, N.A., Morgan Guaranty, Merrill Lynch, Pierce, Fenner &

1 Smith, Incorporated, Davey Tree Expert Co., the City of Palo Alto, California, the State of
2 Tennessee and Pacific Investment Management Company LLC.

3 Committee Support Agreement means that certain Support Agreement, dated
4 September 19, 2001, entered into by and among the Committee, the Debtor and the Parent, as
5 may be amended from time to time.

6 Common Stock means shares of the Debtor's common stock, par value \$5.00 per
7 share.

8 Common Stock Equity Interests means any right relating to the three hundred
9 twenty-six million, nine hundred twenty-six thousand, six hundred sixty-seven (326,926,667)
10 issued and outstanding shares of Common Stock as of the date hereof, all of which are held
11 directly or indirectly by the Parent.

12 Confirmation Date means the date on which the Clerk of the Bankruptcy Court
13 enters the Confirmation Order on the Bankruptcy Court's docket.

14 Confirmation Hearing means the hearing held by the Bankruptcy Court to
15 consider confirmation of the Plan pursuant to section 1128 of the Bankruptcy Code, as such
16 hearing may be adjourned or continued from time to time.

17 Confirmation Order means the order of the Bankruptcy Court confirming the Plan
18 pursuant to section 1129 of the Bankruptcy Code.

19 Convenience Claims means all Claims against the Debtor held by a vendor,
20 supplier or service provider or arising from the rejection of executory contracts or unexpired
21 leases under section 365 of the Bankruptcy Code (a) in the Allowed amount of \$100,000 or less,
22 or (b) consensually reduced to an Allowed amount of \$100,000 by the holder of the Claim.

23 CPU Code means the California Public Utilities Code.

24 Debtor has the meaning set forth in the introduction to the Plan.

25 Debtor-in-Possession means the Debtor in its capacity as debtor-in-possession in
26 the Chapter 11 Case pursuant to sections 1101, 1107(a) and 1108 of the Bankruptcy Code.

1 Debtor's Articles of Incorporation means the Debtor's Restated Articles of
2 Incorporation, effective as of May 6, 1998.

3 Debtor's Bankruptcy Schedules means the schedules of assets and liabilities,
4 schedule of current income and expenditures, schedule of executory contracts and unexpired
5 leases, and statement of financial affairs filed in this Chapter 11 Case by the Debtor pursuant to
6 section 521 of the Bankruptcy Code and Bankruptcy Rule 1007, as amended from time to time.

7 Debtor's Bylaws means the Debtor's Bylaws, as amended as of February 21,
8 2001.

9 Disbursing Agent means any Entity in its capacity as a disbursing agent under
10 Section 5.4 of the Plan.

11 Disclosure Statement means the Disclosure Statement for the Commission's Plan
12 of Reorganization under Chapter 11 of the Bankruptcy Code for the Debtor, dated April 15,
13 2002, including, without limitation, all exhibits and schedules thereto, as approved on May __ ,
14 2002 by the Bankruptcy Court pursuant to the Disclosure Statement Order.

15 Disclosure Statement Order means the order of the Bankruptcy Court entered
16 pursuant to section 1125 of the Bankruptcy Code approving, among other things, the Disclosure
17 Statement, setting dates for the Confirmation Hearing and for filing objections to the Plan, and
18 establishing procedures for the solicitation and tabulation of votes to accept or reject the Plan.

19 Disputed Claim means, (a) with reference to any Claim against the Debtor, proof
20 of which was timely and properly filed, or in the case of an Administrative Expense Claim, any
21 Claim or Administrative Expense Claim, as the case may be, which is disputed under the Plan or
22 as to which the Debtor has interposed a timely objection and/or request for estimation in
23 accordance with section 502(c) of the Bankruptcy Code and/or Bankruptcy Rule 3018, which
24 objection and/or request for estimation has not been withdrawn or determined by a Final Order,
25 and (b) any Claim against the Debtor, proof of which was required to be filed by order of the
26 Bankruptcy Court or pursuant to applicable law, but as to which a proof of claim was not timely
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1 or properly filed. A Claim that is Disputed by the Debtor as to its amount only shall be deemed
2 Allowed in the amount the Debtor admits owing, if any, and Disputed as to the excess.

3 Disputed Claim Amount means the disputed portion of the amount set forth in the
4 proof of claim relating to a Disputed Claim or, if an amount is estimated in respect of a Disputed
5 Claim in accordance with section 502(c) of the Bankruptcy Code and/or Bankruptcy Rule 3018,
6 the amount so estimated pursuant to an order of the Bankruptcy Court.

7 Distribution Record Date means the close of business two (2) Business Days prior
8 to the Effective Date.

9 DWR means the California Department of Water Resources.

10 DWR Claims means all Claims against the Debtor arising from the DWR
11 Comprehensive Agreement maturing in 2001 through 2008.

12 DWR Comprehensive Agreement means the Agreement between the Debtor and
13 the DWR, effective April 22, 1982, relating to the terms of certain transmission services
14 provided to the DWR, together with all amendments, modifications, renewals, substitutions and
15 replacements thereof.

16 Effective Date means the second Business Day after the date on which the
17 conditions specified in Section 8.2 hereof have been satisfied or waived.

18 Entity has the meaning set forth in section 101(15) of the Bankruptcy Code.

19 Environmental, Fire Suppression, Tort and FERC License Claims means all
20 Environmental Claims, Fire Suppression Claims, Tort Claims and FERC License Claims.

21 Environmental Claims means all Claims against the Debtor arising from any
22 accusation, allegation, notice of violation, action, claim, environmental Lien, demand, abatement
23 or other order, restriction or direction (conditional or otherwise) by any Governmental Entity or
24 any other Person for personal injury (including, but not limited to, sickness, disease or death),
25 tangible or intangible property damage, Punitive Damages, damage to the environment,
26 nuisance, pollution, contamination or other adverse effect on the environment or costs (to the
27 extent recoverable under applicable non-bankruptcy law) of any Governmental Entity related
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1 thereto, in each case resulting from or based upon (a) the existence, or the continuation of the
2 existence, of a release (including, but not limited to, sudden or non-sudden accidental or non-
3 accidental releases) of, or exposure to, any hazardous or deleterious material, substance, waste,
4 pollutant or contaminant, odor or audible noise in, into or onto the environment (including, but
5 not limited to, the air, soil, surface water or groundwater) at, in, by, from or related to any
6 property (including any vessels or facilities of the Debtor) presently or formerly owned, operated
7 or leased by the Debtor or any activities or operations thereon, (b) the transportation, storage,
8 treatment or disposal of any hazardous or deleterious material, substance, waste, pollutant or
9 contaminant in connection with any property presently or formerly owned, operated or leased by
10 the Debtor or its operations or facilities, or (c) the violation or alleged violation, of any
11 environmental law, order or environmental permit or license of or from any Governmental Entity
12 relating to environmental matters connected with any property presently or formerly owned,
13 operated or leased by the Debtor, provided, however, that Environmental Claims shall not
14 include (i) any Claims fully settled, liquidated or determined by a Final Order or a binding
15 award, agreement or settlement prior to the Petition Date for amounts payable by the Debtor for
16 damages or other obligations in a fixed dollar amount payable in a lump sum or by a series of
17 payments (which Claims are classified as General Unsecured Claims), (ii) Tort Claims, (iii) Fire
18 Suppression Claims, (iv) FERC License Claims, or (v) Chromium Litigation Claims.

19 Environmental Order has the meaning set forth in Section 4.16(b) hereof.

20 Equity Interest means any share of Common Stock, Preferred Stock or other
21 instrument evidencing an ownership interest in the Debtor, whether or not transferable, and any
22 option, warrant or other right, contractual or otherwise, to acquire any such interest.

23 ERISA means the Employee Retirement Income Security Act of 1974, as
24 amended.

25 ESP means energy service provider.

26 ESP Claims means all Claims against the Debtor arising from PX energy credits
27 payable by the Debtor to ESPs.

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1 Existing Tax Matters Agreement means that agreement, dated as of January 1,
2 1997, for the allocation of income tax liability within an affiliated group of corporations (as
3 defined in section 1504(a) of the Tax Code) between the Debtor and the Parent.

4 Federal Judgment Rate means the interest rate allowed pursuant to section 1961 of
5 title 28 of the United States Code, as amended, as published by the Board of Governors of the
6 Federal Reserve System for the calendar week that preceded the Petition Date.

7 Fed. Rules Civ. Pro. means the Federal Rules of Civil Procedure.

8 FERC means the Federal Energy Regulatory Commission.

9 FERC License Claims means all Claims against the Debtor held by a
10 Governmental Entity arising from or under FERC licenses, including, but not limited to, Belden
11 FERC License 2015 (including fish stocking requirements set forth therein).

12 Final Order means an order or decree of the Bankruptcy Court, or any other court
13 of competent jurisdiction, as to which the time to appeal, petition for certiorari, or move for
14 reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other
15 proceedings for reargument or rehearing shall then be pending or as to which any right to appeal,
16 petition for certiorari, reargue, or rehear shall have been waived in writing in form and substance
17 satisfactory to the Debtor and the Commission or, in the event that an appeal, writ of certiorari,
18 or reargument or rehearing thereof has been sought, such order or decree of the Bankruptcy
19 Court or other court of competent jurisdiction shall have been determined by the highest court to
20 which such order or decree was appealed, or certiorari, reargument or rehearing shall have been
21 denied and the time to take any further appeal, petition for certiorari or move for reargument or
22 rehearing shall have expired; provided, however, that the possibility that a motion under Rule 59
23 or Rule 60 of the Fed. Rules Civ. Pro., or any analogous rule under the Bankruptcy Rules or
24 applicable state court rules of civil procedure, may be filed with respect to such order or decree
25 shall not prevent such order or decree from being a Final Order.

26 Fire Suppression Claims means all Claims against the Debtor by any
27 Governmental Entity for damages and costs resulting from a fire that may be recovered under
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1 either state or federal law, including, but not limited to, Claims for damages to property, the cost
2 of restoring all property damaged as a result of the fire, the cost of compensating all other losses
3 resulting from damage to property arising from a fire, and costs incurred in fighting a fire,
4 including all investigative, administrative, accounting, collection, and other costs; provided,
5 however, that the foregoing “including, but not limited to” description of the types of damages
6 and costs that are included in this definition are for illustrative purposes only and do not
7 constitute an acknowledgment or admission by the Debtor that any such damages or costs are in
8 fact recoverable under state or federal law.

9 First and Refunding Mortgage Bonds means (i) 6.250% First and Refunding
10 Mortgage Bonds Series 93C due August 1, 2003, (ii) 6.25% First and Refunding Mortgage
11 Bonds Series 93G due March 1, 2004, (iii) 5.875% First and Refunding Mortgage Bonds Series
12 93E due October 1, 2005, (iv) 6.250% First and Refunding Mortgage Bonds Series 81B due
13 August 1, 2011, (v) 8.800% First and Refunding Mortgage Bonds Series 91A due May 1, 2024,
14 (vi) 8.375% First and Refunding Mortgage Bonds Series 92B due May 1, 2025, (vii) 8.250%
15 First and Refunding Mortgage Bonds Series 92D due November 1, 2022, (viii) First and
16 Refunding Mortgage Bonds Series 93A due March 1, 2026, (ix) 7.250% First and Refunding
17 Mortgage Bonds Series 93D due August 1, 2026, (x) 6.750% First and Refunding Mortgage
18 Bonds Series 93F due October 1, 2023, (xi) 7.050% First and Refunding Mortgage Bonds Series
19 93F due October 1, 2023, and (xii) 7.050% First and Refunding Mortgage Bonds Series 93H due
20 March 1, 2024, each issued by the Debtor under the Mortgage, together with any Matured and
21 Unpresented First and Refunding Mortgage Bonds, provided, that the Debtor is not waiving any
22 rights or claims it may have under applicable non-bankruptcy law against any holder of any
23 Matured and Unpresented First and Refunding Mortgage Bond or any other party with respect
24 thereto.

25 First and Refunding Mortgage Bond Documents means with respect to each series
26 of First and Refunding Mortgage Bonds, the Mortgage, and all of the other documents,
27 instruments, agreements and certificates evidencing, securing, governing or otherwise pertaining
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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) DWR Claims, (f) Southern San Joaquin Valley Power Authority Bond Claims, (g) Claims
15 against the Debtor arising from the rejection of executory contracts and unexpired leases under
16 section 365 of the Bankruptcy Code, (h) Claims against the Debtor relating to pre-petition
17 litigation, (i) Claims against the Debtor by the Debtor's vendors, suppliers and service providers,
18 (j) Claims against the Debtor relating to intercompany obligations to Affiliates and (k)
19 Commercial Paper Claims; provided, however, that General Unsecured Claims will not include
20 any unsecured Claims included in any other Class.

21 Governmental Entity has the meaning set forth for a governmental unit in section
22 101(27) of the Bankruptcy Code.

23 Impaired means any Class of Claims against or Equity Interests in the Debtor that
24 is impaired within the meaning of section 1124 of the Bankruptcy Code.

25 Indenture means, with respect to each series of PC Bonds, that certain indenture
26 of trust between the Issuer and the Bond Trustee pursuant to which such series of PC Bonds were
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1 issued, as originally executed, together with all amendments, modifications, renewals,
2 substitutions and replacements thereof.

3 Initial Calculation Date means (i) with respect to holders of Allowed Class 5
4 Claims for Senior Indebtedness and holders of Allowed Claims in Classes 4c, 4f, 4g and 11,
5 February 28, 2002, and (ii) with respect to the remaining holders of Allowed Claims in Class 5
6 and the holders of Allowed Claims in Classes 1, 2, 6, 7 and 10, June 30, 2002.

7 Interest Period means the period commencing on any interest payment date
8 specified herein and ending on the day preceding the next succeeding interest payment date;
9 except in respect of the first interest period which extends to the Confirmation Date, where the
10 Interest Period shall commence on the earlier of the Petition Date or the date specified on
11 Exhibit 1 hereto and shall end on the Confirmation Date and the second interest period shall
12 commence on the Confirmation Date.

13 Investment Grade Credit Rating means credit ratings from S&P of BBB- or better
14 and Moody's of Baaa3 or better.

15 IRS means the United States Internal Revenue Service.

16 ISO means the California Independent System Operator.

17 ISO, PX and Generator Claims means all Claims against the Debtor arising from
18 amounts due to the ISO, PX and various power generators based on purchases of electricity or
19 ancillary services by the Debtor in markets operated by the PX and the ISO.

20 Issuer means the California Pollution Control Financing Authority, a public
21 instrumentality and political subdivision of the State of California, organized and existing under
22 the California Pollution Control Financing Authority Act, being Division 27 (commencing at
23 Section 44500) of the California Health and Safety Code, as supplemented and amended.

24 LC Bank Agreement has the meaning set forth in Section 4.10(b)(iv) hereof.

25 Letter of Credit means, with respect to each series of Letter of Credit Backed PC
26 Bonds, that certain irrevocable direct pay letter of credit issued by the Letter of Credit Issuing
27 Bank for the account of the Debtor to the Bond Trustee and delivered to the Bond Trustee in
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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 with the Debtor in an amount equal to the outstanding Stated
18 Amount of each of the Letters of Credit, and (b) the Claims of the Letter of Credit Issuing Banks
19 and the applicable Banks, if any, for any and all accrued and unpaid amounts due by the Debtor
20 under their respective Reimbursement Agreements, including amounts due as reimbursement of
21 amounts paid by each Letter of Credit Issuing Bank under its respective Letter of Credit to the
22 Bond Trustee for the payment of interest on the related series of Letter of Credit Backed PC
23 Bonds.

24 LIBOR means, with respect to each Interest Period, the rate per annum appearing
25 on Bloomberg Professional page BBAM1 (or any successor page) as the London interbank
26 offered rate for deposits in U.S. dollars having the index maturity designated by the Debtor at
27 approximately 11:00 a.m. (London time) on the LIBOR Interest Determination Date. If no rate
28

1 appears on Bloomberg Professional page BBAM1, LIBOR shall mean the rate per annum
2 appearing on Bridge Telerate Inc. page 3750 (or any successor page) as the London interbank
3 offered rate for deposits in U.S. dollars having the index maturity designated by the Debtor at
4 approximately 11:00 a.m. (London time) on the LIBOR Interest Determination Date. If no rate
5 appears on Bridge Telerate page 3750, the Debtor will request the principal London offices of
6 each of four major reference banks in the London interbank market, as selected by the Debtor, to
7 provide the Debtor with its offered quotation for deposits in U.S. dollars having the index
8 maturity designated by the Debtor to prime banks in the London interbank market at
9 approximately 11:00 a.m. (London time) on such LIBOR Interest Determination Date and in a
10 principal amount that is representative of a single transaction in U.S. dollars in such market at
11 such time. LIBOR determined will be the arithmetic mean of the offered quotations. If fewer
12 than two quotations are provided, LIBOR determined on such LIBOR Interest Determination
13 Date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. in New York
14 City on such LIBOR Interest Determination Date, by three major banks in New York City
15 selected by the Debtor for loans in U.S. dollars to leading European banks, having the index
16 maturity designated by the Debtor that is representative for a single transaction in U.S. dollars in
17 such market at such time. If the banks so selected are not quoting as mentioned above, LIBOR
18 will remain LIBOR in effect on such LIBOR Interest Determination Date.

19 LIBOR Interest Determination Date means, for an Interest Period, the second
20 London Business Day immediately preceding the first day of that Interest Period; except that in
21 the period prior to the Initial Calculation Date, the LIBOR Interest Determination Dates for (a)
22 Allowed Commercial Paper Claims shall be the second London Business Day immediately
23 preceding each of April 1, July 1, October 1 and January 1, (b) Allowed Claims under
24 International Swap Dealers Association (“ISDA”) Agreements shall be the Petition Date and
25 each anniversary thereof prior to the Initial Calculation Date, and (c) Allowed Claims for power
26 generators shall be determined between the Debtor and each such power generator,
27 notwithstanding the fact that none of such dates is an interest payment date.
28

1 Lien has the meaning set forth in section 101(37) of the Bankruptcy Code.

2 Loan Agreement means, with respect to each series of PC Bonds, that certain loan
3 agreement by and between the Issuer and the Debtor with respect to such series of PC Bonds, as
4 originally executed, together with all amendments, modifications, renewals, substitutions and
5 replacements thereof.

6 Master Ballot means the Ballot to be completed by Nominees of beneficial
7 owners of bonds, notes, debentures or shares of stock of the Debtor.

8 Matured and Unpresented First and Refunding Mortgage Bonds means,
9 collectively, that portion of the Debtor's (a) First and Refunding Mortgage Bonds, Series II,
10 4.25%, (b) First and Refunding Mortgage Bonds, Series JJ, 4.5%, (c) First and Refunding
11 Mortgage Bonds, Series LL, 4.625%, (d) First and Refunding Mortgage Bonds, Series MM,
12 5.375%, (e) First and Refunding Mortgage Bonds, Series NN, 5.75%, (f) First and Refunding
13 Mortgage Bonds, Series OO, 5.50%, and (g) First and Refunding Mortgage Bonds, 8% Series
14 92C, to the extent that (i) such matured bonds have not been presented for payment by the
15 holders thereof, and (ii) the Debtor is obligated to pay the principal of, and interest on, such
16 bonds in accordance with the terms thereof under applicable law, provided that the Debtor is not
17 waiving any rights or claims it may have under applicable non-bankruptcy law against any
18 holder of any such bond or any other party with respect thereto.

19 MBIA means MBIA Inc.

20 MBIA Claims means all Claims against the Debtor relating to (a) the contingent
21 Claims of MBIA with respect to payments which may become due by the Debtor under the terms
22 of the MBIA Reimbursement Agreement as reimbursement for payments made by MBIA under
23 the PC Bond Insurance Policy, and (b) the Claims of MBIA for any and all accrued and unpaid
24 amounts due by the Debtor under the MBIA Reimbursement Agreement, including any and all
25 amounts due by the Debtor as reimbursement of amounts paid by MBIA under the PC Bond
26 Insurance Policy to the Bond Trustee for the payment of interest on the MBIA Insured PC
27 Bonds.

28

1 MBIA Insured PC Bond Claims means all Claims against the Debtor by the
2 Issuer, Bond Trustee and the holders of the MBIA Insured PC Bonds for all amounts due and
3 owing by the Debtor under the Loan Agreements and each of the other PC Bond Documents
4 executed by the Debtor in connection with the issuance of each series of MBIA Insured PC
5 Bonds.

6 MBIA Insured PC Bonds means those certain California Pollution Control
7 Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric
8 Company) 1996 Series A issued by the Issuer in the aggregate principal amount of
9 \$200,000,000.

10 MBIA Reimbursement Agreement means that certain Reimbursement and
11 Indemnity Agreement, dated as of May 1, 2000, by and between the Debtor and MBIA, pursuant
12 to which MBIA has issued the PC Bond Insurance Policy, together with all amendments,
13 modifications, and renewals thereof.

14 Medium Term Note Claims means all Claims against the Debtor arising from the
15 Medium Term Notes.

16 Medium Term Notes means those certain notes bearing various interest rates from
17 5.810% to 8.450% due through October 7, 2013, other than the Senior Notes and the Floating
18 Rate Notes, issued by the Debtor under an indenture by and between the Debtor and Wilmington
19 Trust Company, as successor-in-interest to the Bank of New York, dated September 1, 1987,
20 together with all amendments, modifications, renewals, substitutions and replacements thereof.

21 Moody's means Moody's Investors Service Inc. or its successor.

22 Mortgage means that certain First and Refunding Mortgage, dated December 1,
23 1920, made by the Debtor, under which BNY Western Trust Company was trustee on the
24 Petition Date, together with all amendments, modifications, renewals, substitutions and
25 replacements thereof.

26 Mortgage Backed PC Bonds means collectively, the 92A Bonds, the 92B Bonds,
27 the 93A Bonds and the 93B Bonds.

1 Mortgage Backed PC Bond Claims means all Claims against the Debtor by the
2 Issuer, Bond Trustee and the holders of the Mortgage Backed PC Bonds for all amounts due and
3 owing by the Debtor under the Loan Agreement and each of the other PC Bond Documents
4 executed by the Debtor in connection with the issuance of each series of Mortgage Backed PC
5 Bonds.

6 Mortgage Bonds means, with respect to each series of Mortgage Backed PC
7 Bonds, those certain first and refunding mortgage bonds made by the Debtor in favor of the
8 Bond Trustee pursuant to and secured by the Mortgage, in an aggregate principal amount equal
9 to the related series of Mortgage Backed PC Bonds.

10 Mortgage Loan means, with respect to each series of First and Refunding
11 Mortgage Bonds, the loans made by the holders thereof to the Debtor.

12 New Tax Sharing Agreement means the agreement to be entered into between the
13 Parent and the Reorganized Debtor for the allocation of income tax liability within an affiliated
14 group of corporations (as defined in section 1504(a) of the Tax Code).

15 Nominee means any brokerage firm or bank, or the agent of such firm or bank,
16 holding the securities of a beneficial owner of bonds, notes, debentures or shares of stock of the
17 Debtor.

18 Original Letter of Credit Fee has the meaning set forth in Section 4.10(b)(iv)
19 hereof.

20 Other Priority Claims means all Claims against the Debtor, other than
21 Administrative Expense Claims or Priority Tax Claims, entitled to priority in right of payment
22 under section 507(a) of the Bankruptcy Code.

23 Other Secured Claims means all Claims against the Debtor relating to mechanics'
24 and materialmen's liens and secured tax Claims, as well as Secured Claims, other than Secured
25 Claims Relating to First and Refunding Mortgage Bonds, Secured Claims Relating to Replaced
26 First and Refunding Mortgage Bonds and Mortgage Backed PC Bond Claims.

27 Parent means PG&E Corporation, the Debtor's parent company.
28

1 PC Bond Documents means, with respect to each series of PC Bonds, the Loan
2 Agreement, Indenture, and all of the other documents, instruments, agreements and certificates
3 evidencing, securing, governing or otherwise pertaining to the respective Bond Loan or the
4 respective series of PC Bonds or otherwise executed and delivered by or on behalf of the Debtor
5 in connection with any of the foregoing, together with all amendments, modifications, renewals,
6 substitutions and replacements of or to any of the foregoing.

7 PC Bond Insurance Policy means that certain Financial Guaranty Insurance Policy
8 issued by MBIA with respect to the MBIA Insured PC Bonds, together with all amendments,
9 modifications, renewals, substitutions and replacements thereof.

10 PC Bonds means collectively, the Letter of Credit Backed PC Bonds, the MBIA
11 Insured Bonds, the Mortgage Backed PC Bonds, the Prior Bonds and the Treasury PC Bonds.

12 Person has the meaning set forth in section 101(41) of the Bankruptcy Code.

13 Petition Date means April 6, 2001, the date on which the Debtor commenced the
14 Chapter 11 Case.

15 PG&E's Plan means that certain Second Amended Plan of Reorganization under
16 Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company proposed by the
17 Debtor and the Parent, dated March 7, 2002, including, without limitation, PG&E's Plan
18 Supplement and all exhibits, supplements, appendices and schedules thereto, either in its present
19 form or as the same may be altered, amended or modified from time to time.

20 Plan means this plan of reorganization, as amended, modified or supplemented.

21 PG&E's Plan Supplement means the documents, schedules and other instruments
22 filed with the Bankruptcy Court in accordance with Section 11.19 of PG&E's Plan, as amended,
23 modified or supplemented.

24 Post-Petition Interest has the meaning set forth in Section 4.1 hereof.

25 Preferred Stock means the issued and outstanding shares of the Debtor's First
26 Preferred Stock, par value \$25.00 per share. The Debtor's outstanding First Preferred Stock is
27 comprised of: (a) 6% Non-Redeemable First Preferred, (b) 5.5% Non-Redeemable First
28

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

5 Preferred Stock Equity Interests means any right relating to the Debtor's Preferred
6 Stock.

7 Prior Bond Claims means all Claims against the Debtor by the Prior Letter of
8 Credit Issuing Banks for any and all accrued and unpaid amounts due by the Debtor under their
9 respective Prior Reimbursement Agreements, including amounts due as reimbursement of
10 amounts paid by each Prior Letter of Credit Issuing Bank under its respective Prior Letter of
11 Credit to the Bond Trustee for the payment of the redemption price of the related series of Prior
12 Bonds.

13 Prior Bonds means, collectively, the 96B Bonds, the 96D Bonds, the 97A Bonds
14 and the 97C Bonds, together with any series of 96C Bonds, 96E Bonds, 96F Bonds and/or 97B
15 Bonds that have been redeemed in whole, but not in part, as of the Voting Record Date or the
16 Effective Date, as applicable.

17 Prior Letter of Credit means, with respect to each series of Prior Bonds, that
18 certain irrevocable direct pay letter of credit issued by the Prior Letter of Credit Issuing Bank for
19 the account of the Debtor to the Bond Trustee and delivered to the Bond Trustee in accordance
20 with the terms of the respective Indenture which secured, among other things, the payment of the
21 principal of, and interest on, the respective series of Prior Bonds, together with all amendments,
22 modifications, renewals, substitutions and replacements thereof.

23 Prior Letter of Credit Issuing Bank means, with respect to each series of Prior
24 Bonds, the issuer of the Prior Letter of Credit.

25 Prior Reimbursement Agreement means, with respect to each series of Prior
26 Bonds, that certain reimbursement or other agreement between the Debtor and the Prior Letter of
27 Credit Issuing Bank providing for, among other things, the issuance of the related Prior Letter of
28

1 Credit and the reimbursement of the Prior Letter of Credit Issuing Bank for draws made
2 thereunder, together with all amendments, modifications, renewals, substitutions and
3 replacements thereof.

4 Priority Tax Claim means all Claims against the Debtor for taxes entitled to
5 priority in payment under section 507(a)(8) of the Bankruptcy Code.

6 Professional Compensation and Reimbursement Claims means all Administrative
7 Expense Claims for the compensation of professionals and reimbursement of expenses incurred
8 by such professionals, the Commission, the Committee and members of the Committee pursuant
9 to sections 330(a) or 503(b)(2), 503(b)(3), 503(b)(4) and 503(b)(5) of the Bankruptcy Code.

10 Proponent means the Commission.

11 PUHCA means the Public Utility Holding Company Act of 1935, as amended.

12 Punitive Damages means punitive, exemplary or similar damages, or fines,
13 penalties or similar charges that arise in connection with Environmental Claims, Fire
14 Suppression Claims, Tort Claims, FERC License Claims or Chromium Litigation Claims.

15 PX means the California Power Exchange.

16 QFs means qualifying facilities operating pursuant to the Public Utility
17 Regulatory Policies Act of 1978 and the related regulations enacted thereunder.

18 QUIDS means the 7.90% Deferrable Interest Subordinated Debentures, Series A,
19 Due December 31, 2025 issued by the Debtor under the QUIDS Indenture, together with all
20 amendments, modifications, renewals, substitutions and replacements thereof.

21 QUIDS Claims means all Claims arising from the QUIDS.

22 QUIDS Indenture means the Indenture by and between the Debtor and National
23 City Bank of Indiana, as successor-in-interest to Bank One Trust Company, N.A., as successor-
24 in-interest to The First National Bank of Chicago, dated November 28, 1995, as supplemented by
25 the First Supplemental Indenture dated November 28, 1995, as supplemented by the Second
26 Supplemental Indenture dated March 25, 1996.

1 Rate Recovery Litigation means Pacific Gas and Electric Co. v. Loretta Lynch,
2 et al., Case No. C-00-4128-SBA in the United States District Court for the Northern District of
3 California, or any subsequent lawsuit(s) raising substantially the same claims.

4 Reimbursement Agreement means, with respect to each series of Letter of Credit
5 Backed PC Bonds, that certain reimbursement or other agreement between the Debtor and the
6 Letter of Credit Issuing Bank and certain other Banks, if any, that are signatories thereto
7 providing for, among other things, the issuance of the related Letter of Credit and the
8 reimbursement of the Letter of Credit Issuing Bank and certain other Banks, if any, that are
9 signatories thereto for draws made under such Letter of Credit, together with all amendments,
10 modifications, renewals, substitutions and replacements thereof.

11 Reimbursement Obligation means, with respect to each series of Prior Bonds, that
12 portion of the reimbursement obligation of the Debtor under the Prior Reimbursement
13 Agreement arising with respect to the portion of the final drawing made under the related Prior
14 Letter of Credit for the payment of the principal portion of the redemption price of the related
15 series of Prior Bonds.

16 Releasees means all Persons who (i) are present or former officers and directors
17 of the Debtor who were directors and/or officers on or after the Petition Date; (ii) serve or served
18 as members of management of the Debtor on or after the Petition Date; (iii) are present or former
19 members of the Committee; (iv) are present or former officers and directors and other Persons
20 who serve or served as members of the management of any present or former member of the
21 Committee; and (v) are advisors, consultants or professionals of or to the Debtor, the Committee
22 and the members of the Committee, but in each case only to the extent such Persons are or were
23 acting in any of the capacities set forth in (i) through (v) above.

24 Reorganized Debtor means the Debtor, or any successor thereto by merger,
25 consolidation or otherwise, on and after the Effective Date.

26 Reorganized Debtor New Money Notes has the meaning set forth in Section
27 7.1(a) hereof.

28

1 Revolving Line of Credit means the Amended and Restated Credit Agreement,
2 dated as of December 1, 1997, as amended, as to which Bank of America, N.A. was the
3 Administrative Agent on the Petition Date, together with all amendments, modifications,
4 renewals, substitutions and replacements thereof.

5 Revolving Line of Credit Claim means all Claims against the Debtor arising from
6 the Revolving Line of Credit.

7 Secured Claim means all Claims against the Debtor, to the extent reflected in the
8 Debtor's Bankruptcy Schedules or a proof of claim as a Secured Claim, which are secured by a
9 Lien on Collateral but only to the extent of the value of such Collateral, as determined in
10 accordance with section 506(a) of the Bankruptcy Code, and, in the event that such Claim is
11 subject to a permissible setoff under section 553 of the Bankruptcy Code, to the extent of such
12 permissible setoff.

13 Secured Claims Relating to First and Refunding Mortgage Bonds means all
14 Claims against the Debtor arising from the First and Refunding Mortgage Bonds.

15 Senior Indebtedness means, collectively, Commercial Paper Claims, Floating
16 Rate Note Claims, Medium Term Note Claims, Senior Note Claims and Revolving Line of
17 Credit Claims.

18 Senior Note Claims means all Claims against the Debtor arising from the Senior
19 Notes.

20 Senior Notes means the 7.375% Senior Notes due November 1, 2005, issued by
21 the Debtor under an indenture by and between the Debtor and Wilmington Trust Company, as
22 successor-in-interest to The Bank of New York, dated September 1, 1987, together with all
23 amendments, modifications, renewals, substitutions and replacements thereof.

24 Settlement and Support Agreement means that certain Amended and Restated
25 Settlement and Support Agreement dated as of March 27, 2002, by and among the Debtor, the
26 Parent and certain holders of Senior Indebtedness who are parties thereto.

1 Settlement Order means the order of the Bankruptcy Court approving the
2 Settlement and Support Agreement.

3 Southern San Joaquin Valley Power Authority Agreement means the Agreement
4 between the Debtor and the Southern San Joaquin Valley Power Authority dated as of July 1,
5 1997, and related Indenture of Trust dated as of November 1, 1991, between the Southern San
6 Joaquin Valley Power Authority and Bank of America N.A., as Trustee in respect of amounts
7 payable on certain bonds issued by Southern San Joaquin Power Authority maturing in 2001
8 through January 1, 2013, together with all amendments, modifications, renewals, substitutions
9 and replacements thereof.

10 Southern San Joaquin Valley Power Authority Bond Claims means all Claims
11 against the Debtor arising from the Southern San Joaquin Valley Power Authority Agreement.

12 S&P means Standard & Poor's, a division of The McGraw Hill Companies, Inc.,
13 or its successor.

14 State or State of California means the State of California and all of its entities
15 departments, boards, offices, commissions, agencies, bureaus, divisions, instrumentalities,
16 officers, commissioners and employees.

17 Stated Amount means, with respect to each Letter of Credit, the aggregate amount
18 available to be drawn thereunder, from time to time, in accordance with the terms thereof.

19 Tax Code means the United States Internal Revenue Code of 1986, as amended,
20 and the Treasury Regulations thereunder.

21 Tort Claims means all Claims against the Debtor arising from any accusation,
22 allegation, notice, action, claim, demand or otherwise for personal injury, tangible or intangible
23 property damage, products liability, discrimination, employment or other similar litigation
24 against the Debtor, including Punitive Damages; provided, however, that Tort Claims shall not
25 include (a) any Claims settled, liquidated or determined by a Final Order or a binding award,
26 agreement or settlement prior to the Petition Date for amounts payable by the Debtor for
27 damages or other obligations in a fixed dollar amount payable in a lump sum by a series of
28

1 payments (which Claims are classified as General Unsecured Claims), (b) Environmental
2 Claims, (c) Fire Suppression Claims, (d) FERC License Claims or (e) Chromium Litigation
3 Claims.

4 Treasury PC Bond Claims means the Claims against the Debtor by the Issuer,
5 Bond Trustee and holders of Treasury PC Bonds for all amounts due and owing by the Debtor
6 under the Loan Agreements and each of the other PC Bond Documents executed by the Debtor
7 in connection with the issuance of each series of Treasury PC Bonds.

8 Treasury PC Bonds means, collectively, the 96G Bonds and the 97D Bonds.

9 Unimpaired means any Class of Claims or Equity Interests which is not Impaired.

10 Voting Record Date means June __, 2002, as set forth in the Disclosure Statement
11 Order.

12 Workers' Compensation Claims means all Claims against the Debtor by
13 employees of the Debtor for the payment of workers' compensation benefits under applicable
14 law.

15 Workers' Compensation Indemnity Agreements means (a) the Indemnity
16 Agreement by PG&E Corporation, dated April 7, 2000, to indemnify American Home
17 Assurances Company in connection with issuance of Surety Bond No. 00-207-724 issued on
18 behalf of the Debtor for Workers' Compensation, (b) the Indemnity Agreement by PG&E
19 Corporation, dated April 7, 2000, to indemnify CAN Insurance Companies in connection with
20 issuance of Surety Bond No. 159267371 issued on behalf of the Debtor for Workers'
21 Compensation, (c) the Indemnity Agreement by PG&E Corporation, dated April 7, 2000, to
22 indemnify Kemper Insurance Companies in connection with issuance of Surety Bond No.
23 955006 issued on behalf of the Debtor for Workers' Compensation, (d) the Indemnity Agreement
24 by PG&E Corporation, dated April 7, 2000, to indemnify Travelers Insurance, as successor to
25 Reliance Insurance Company, in connection with issuance of Surety Bond No. B1686191 issued
26 on behalf of the Debtor for Workers' Compensation, and (e) the Indemnity Agreement by PG&E
27 Corporation, dated April 7, 2000, to indemnify Firemen's Fund Insurance Company in
28

1 connection with issuance of Surety Bond No. 11133362811 issued on behalf of the Debtor for
2 Workers' Compensation.

3 1.2 Interpretation; Application of Definitions and Rules of Construction.

4 Wherever from the context it appears appropriate, each term stated in either the singular or the
5 plural shall include both the singular and the plural, and pronouns stated in the masculine,
6 feminine or neuter gender shall include the masculine, feminine and neuter. Unless otherwise
7 specified, all section, article, schedule or exhibit references in the Plan are to the respective
8 Section in, Article of, Schedule to, or Exhibit to, the Plan. The words "herein," "hereof,"
9 "hereto," "hereunder" and other words of similar import refer to the Plan as a whole and not to
10 any particular section, subsection or clause contained in the Plan. The rules of construction
11 contained in section 102 of the Bankruptcy Code shall apply to the construction of the Plan. A
12 term used herein that is not defined herein, but that is used in the Bankruptcy Code, shall have
13 the meaning ascribed to that term in the Bankruptcy Code. The headings in the Plan are for
14 convenience of reference only and shall not limit or otherwise affect the provisions of the Plan.

15 **ARTICLE II**

16 **TREATMENT OF ADMINISTRATIVE EXPENSE CLAIMS,**
17 **PROFESSIONAL COMPENSATION AND REIMBURSEMENT**
18 **CLAIMS, AND PRIORITY TAX CLAIMS**

19 2.1 Administrative Expense Claims. Except to the extent that any entity
20 entitled to payment of any Allowed Administrative Expense Claim agrees to a less favorable
21 treatment, each holder of an Allowed Administrative Expense Claim shall receive Cash in an
22 amount equal to such Allowed Administrative Expense Claim on the later of the Effective Date
23 and the date such Administrative Expense Claim becomes an Allowed Administrative Expense
24 Claim, or as soon thereafter as is practicable, or on such other date as may be ordered by the
25 Bankruptcy Court; provided, however, that Allowed Administrative Expense Claims
26 representing liabilities incurred in the ordinary course of business by the Debtor-in-Possession
27 (including, but not limited to, real and personal property taxes and franchise fees) or liabilities
28 arising under loans or advances to or other obligations incurred by the Debtor-in-Possession shall

1 be paid in full and performed by the Debtor in the ordinary course of business in accordance with
2 the terms and subject to the conditions of any agreements governing, instruments evidencing or
3 other documents relating to such transactions. Except as provided under applicable non-
4 bankruptcy law, Post-Petition Interest will not be paid on Allowed Administrative Expense
5 Claims.

6 2.2 Professional Compensation and Reimbursement Claims. The holders of
7 Professional Compensation and Reimbursement Claims shall file their respective final
8 applications for allowances of compensation for services rendered and reimbursement of
9 expenses incurred through the Confirmation Date by no later than the date that is ninety (90)
10 days after the Confirmation Date, or such other date as may be fixed by the Bankruptcy Court. If
11 granted by the Bankruptcy Court, such award shall be paid in full in such amounts as are
12 Allowed by the Bankruptcy Court either (a) on the date such Professional Compensation and
13 Reimbursement Claim becomes an Allowed Professional Compensation and Reimbursement
14 Claim, or as soon thereafter as is practicable, or (b) upon such other terms as may be mutually
15 agreed upon between such holder of an Allowed Professional Compensation and Reimbursement
16 Claim and the Debtor. Except as provided under applicable non-bankruptcy law, Post-Petition
17 Interest will not be paid on Professional Compensation and Reimbursement Claims.

18 2.3 Priority Tax Claims. Except to the extent that a holder of an Allowed
19 Priority Tax Claim has been paid by the Debtor prior to the Effective Date or agrees to a
20 different treatment, each holder of an Allowed Priority Tax Claim shall receive, in full and
21 complete settlement, satisfaction and discharge of its Allowed Priority Tax Claim, including
22 Post-Petition Interest, Cash in an amount equal to such Allowed Priority Tax Claim on the later
23 of the Effective Date and the date such Priority Tax Claim becomes an Allowed Priority Tax
24 Claim, or as soon as practicable thereafter.

ARTICLE III

CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS

Claims against and Equity Interests in the Debtor, other than Administrative Expense Claims, Professional Compensation and Reimbursement Claims and Priority Tax Claims, are classified for all purposes, including voting, confirmation and distribution pursuant to the Plan, as follows:

<u>Class</u>	<u>Claim/Interest</u>	<u>Status</u>
1	Other Priority Claims	Unimpaired
2	Other Secured Claims	Unimpaired
3	Secured Claims Relating to First and Refunding Mortgage Bonds	Unimpaired
4a	Mortgage Backed PC Bond Claims	Unimpaired
4b	MBIA Insured PC Bond Claims	Unimpaired
4c	MBIA Claims	Impaired
4d	Letter of Credit Backed PC Bond Claims	Unimpaired
4e	Letter of Credit Bank Claims	Impaired
4f	Prior Bond Claims	Unimpaired
4g	Treasury PC Bond Claims	Unimpaired
5	General Unsecured Claims	Impaired
6	ISO, PX and Generator Claims	Impaired
7	ESP Claims	Impaired
8	Environmental, Fire Suppression, Tort and FERC License Claims	Unimpaired
9	Chromium Litigation Claims	Unimpaired
10	Convenience Claims	Unimpaired
11	QUIDS Claims	Impaired
12	Workers' Compensation Claims	Unimpaired

<u>Class</u>	<u>Claim/Interest</u>	<u>Status</u>
13	Preferred Stock Equity Interests	Unimpaired ²
14	Common Stock Equity Interests	Impaired

ARTICLE IV

TREATMENT OF CLAIMS AND EQUITY INTERESTS³

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

² 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.

³ 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, such as the “Step Up” interest rate provisions set forth in section 2(a)(ii) of the Settlement and Support Agreement and the payment of a “placement fee” to certain Claim holders, the provisions governing allowance and treatment of creditor Claims set forth in the creditor settlements are generally (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 QF’s, 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, and any other such similar agreement, whether or not the terms of such settlements are specifically referenced in the Commission’s Plan.

1 rate and in accordance with the terms specified in the applicable statute, indenture or instrument
2 governing such Allowed Claim or, if no such instrument exists, or if the applicable instrument
3 does not specify a non-default rate of interest, Post-Petition Interest shall be calculated and paid
4 on such Allowed Claim at the Federal Judgment Rate. Except as provided by otherwise
5 applicable non-bankruptcy law, Post-Petition Interest will not be paid on the following Allowed
6 Claims: Administrative Expense Claims, Professional Compensation and Reimbursement
7 Claims, Environmental, Fire Suppression, Tort and FERC License Claims, Chromium Litigation
8 Claims and Workers' Compensation Claims.

9 4.2 Timing of Payments and Distributions.

10 (a) The Debtor will make payments of Post-Petition Interest that has
11 accrued and is unpaid on and after the Initial Calculation Date through the last day of the last
12 calendar quarter ending prior to the Effective Date, in arrears, in quarterly installments (or in the
13 case of the first quarter following the Initial Calculation Date, such portion of a quarter) as
14 follows: (x) on the first Business Day of the next calendar quarter to the holders of Allowed
15 Class 5 Claims for Senior Indebtedness and the holders of Allowed Claims in Classes 4c, 4f, 4g
16 and 11, and (y) within 30 days following the end of the calendar quarter, to the remaining
17 holders of Allowed Class 5 Claims and the holders of Allowed Claims in Classes 1, 2, 6, 7 and
18 10. Any Post-Petition Interest that accrues during the period commencing on the first day of the
19 calendar quarter in which the Effective Date occurs and ending on the Effective Date will be paid
20 on the Effective Date.

21 (b) Pursuant to the Settlement Order and the Settlement and Support
22 Agreement, the accrual and payment of Post-Petition Interest shall terminate if (i) the Debtor is
23 determined by a Final Order of the Bankruptcy Court to be insolvent (on a balance sheet basis),
24 with such interest accrual termination effective as of the date of insolvency, as determined by the
25 Bankruptcy Court, (ii) upon conversion of the Chapter 11 Case to a case under chapter 7;
26 provided that there is not a subsequent determination of the Bankruptcy Court that there are
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1 assets of sufficient value to pay Post-Petition Interest on the applicable Allowed Claims, or (iii)
2 under circumstances that would allow for recharacterization, as described below.

3 Any payments of Post-Petition Interest may be recharacterized and treated as a
4 partial payment of the principal amount of the applicable Allowed Claims under the following
5 circumstances: (i) in the event that the Bankruptcy Court determines, by entry of a Final Order,
6 that the Debtor is insolvent (on a balance sheet basis), from the date of insolvency as determined
7 by the Bankruptcy Court; or (ii) if this Plan is not confirmed and another plan of reorganization
8 other than PG&E's Plan is confirmed, in which case any payment of pre-petition Interest and
9 Post-Petition Interest made pursuant to the Settlement Order and the Settlement and Support
10 Agreement that exceeds the amount of pre-petition Interest and Post-Petition Interest otherwise
11 required to be paid to the holders of the affected Allowed Claims under the terms of such other
12 confirmed plan of reorganization may, in the sole discretion of the proponents of such Plan, be
13 recharacterized and treated as a partial payment of the principal amount of the applicable
14 Allowed Claims.

15 (c) Except as set forth in Section 4.2(a) above and except to the extent
16 a holder of an Allowed Claim or Equity Interest has otherwise been paid all or a portion of such
17 holder's Allowed Claim or Equity Interest prior to the Effective Date, each of the distributions
18 specified in this Article IV with respect to each Allowed Claim or Equity Interest shall (i) occur
19 on the later of the Effective Date and the date such Allowed Claim or Equity Interest becomes an
20 Allowed Claim or Equity Interest, or as soon as practicable thereafter, and (ii) be in full and
21 complete settlement, satisfaction and discharge of such Allowed Claim or Equity Interest.

22 4.3 Class 1 - Other Priority Claims.

23 (a) Distributions. Each holder of an Allowed Other Priority Claim, if
24 any, shall be paid Cash in an amount equal to such Allowed Claim.

25 (b) Impairment and Voting. Class 1 is unimpaired by the Plan. Each
26 holder of an Allowed Other Priority Claim is conclusively presumed to have accepted the Plan
27 and is not entitled to vote to accept or reject the Plan.
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4.4 Class 2 - Other Secured Claims.

(a) Distributions/Reinstatement of Claims. The Claims of each holder of an Allowed Other Secured Claim shall, at the option of the Debtor, (i) be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code or (ii) be paid Cash in an amount equal to such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code.

(b) Impairment and Voting. Class 2 is unimpaired by the Plan. Each holder of an Allowed Other Secured Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

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

(a) Allowance. The Secured Claims Relating to First and Refunding Mortgage Bonds shall be deemed Allowed Secured Claims Relating to First and Refunding Mortgage Bonds in the amount of \$2,699,000,000⁴, plus accrued and unpaid pre-petition interest on such amount, plus Allowed Claims in the amount of all unpaid fees and expenses of the related mortgage bond trustee accrued through the Petition Date under the terms of the Mortgage.

(b) Reinstatement of Claims. The First and Refunding Mortgage Bonds and each of the First and Refunding Mortgage Bond Documents shall remain outstanding and be reinstated in accordance with section 1124(2) of the Bankruptcy Code. Each holder of an Allowed Secured Claim Relating to First and Refunding Mortgage Bonds shall be paid Cash in an amount equal to any and all accrued and unpaid interest owed to such holder in respect of such First and Refunding Mortgage Bond in accordance with the terms of the respective First

⁴ This amount is net of the approximately \$277 million of First and Refunding Mortgage Bonds held by the Debtor in treasury.

1 and Refunding Mortgage Bond, to and including the last scheduled interest payment date
2 preceding the Effective Date. All unpaid fees and expenses due and owing under the applicable
3 series of First and Refunding Mortgage Bonds shall also be paid in Cash.

4 (c) Impairment and Voting. Class 3 is unimpaired by the Plan. Each
5 holder of an Allowed Secured Claim Relating to First and Refunding Mortgage Bonds is
6 conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the
7 Plan.

8 4.6 Class 4a - Mortgage Backed PC Bond Claims.

9 (a) Allowance. The Mortgage Backed PC Bond Claims shall be
10 deemed Allowed Secured Claims in the amount of \$345,000,000, plus accrued and unpaid pre-
11 petition interest on such amount, plus Allowed Claims in the amount of all unpaid fees and
12 expenses of the Mortgage Bond trustee accrued through the Petition Date under the terms of the
13 Mortgage.

14 (b) Reinstatement of Claims. Each series of Mortgage Backed PC
15 Bonds, and each of the PC Bond Documents, shall remain outstanding and be reinstated in
16 accordance with section 1124(2) of the Bankruptcy Code. Each holder of a Mortgage Backed
17 PC Bond shall be paid Cash in an amount equal to any and all accrued and unpaid interest owed
18 to such holder in respect of such Mortgage Backed PC Bond in accordance with the terms
19 thereunder to and including the last scheduled interest payment date preceding the Effective
20 Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the
21 applicable Loan Agreements shall also be paid in Cash.

22 (c) Impairment and Voting. Class 4a is unimpaired by the Plan. Each
23 holder of an Allowed Mortgage Backed PC Bond Claim is conclusively presumed to have
24 accepted the Plan and is not entitled to vote to accept or reject the Plan.

25 4.7 Class 4b - MBIA Insured PC Bond Claims.

26 (a) Allowance. The MBIA Insured PC Bond Claims shall be deemed
27 Allowed MBIA Insured PC Bond Claims in the amount of \$200,000,000, plus accrued and
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1 unpaid pre-petition interest on such amount, plus Allowed Claims in the amount of all unpaid
2 fees and expenses of the related Issuer and Bond Trustee accrued through the Petition Date under
3 the terms of the applicable PC Bond Documents.

4 (b) Reinstatement of Claims. The MBIA Insured PC Bonds, and each
5 of the PC Bond Documents, shall remain outstanding and be reinstated in accordance with
6 section 1124(2) of the Bankruptcy Code. Each holder of a MBIA Insured PC Bond shall be paid
7 Cash in an amount equal to any and all accrued and unpaid interest owed to such holder in
8 respect of such MBIA Insured PC Bond in accordance with the terms of the respective MBIA
9 Insured PC Bond, to and including the last scheduled interest payment date preceding the
10 Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing
11 under the applicable Loan Agreement shall also be paid in Cash.

12 (c) Impairment and Voting. Class 4b is unimpaired by the Plan. Each
13 holder of an Allowed MBIA Insured PC Bond Claim is conclusively presumed to have accepted
14 the Plan and is not entitled to vote to accept or reject the Plan.

15 4.8 Class 4c - MBIA Claims.

16 (a) Allowance. The Claims of MBIA with respect to payments which
17 may become due by the Debtor under the terms of the MBIA Reimbursement Agreement as
18 reimbursement for payments made by MBIA under the PC Bond Insurance Policy shall be
19 deemed contingent Claims, and the Claims of MBIA for any and all other accrued and unpaid
20 amounts due by the Debtor under the MBIA Reimbursement Agreement, including any and all
21 amounts due by the Debtor as reimbursement of amounts paid by MBIA under the PC Bond
22 Insurance Policy to the Bond Trustee for the payment of interest on the MBIA Insured PC
23 Bonds, shall be deemed Allowed MBIA Claims.

24 (b) Distributions. Each holder of an Allowed MBIA Claim shall be
25 paid Cash equal to its pro rata share of the aggregate amount paid by MBIA to the Bond Trustee
26 with respect to the payment of interest on the MBIA Insured PC Bonds during the period from
27 the Petition Date to and including the last scheduled interest payment date preceding the
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1 Effective Date, together with its pro rata share of all other amounts due and owing to MBIA
2 under the terms of the MBIA Reimbursement Agreement through the Effective Date, including
3 any accrued and unpaid interest due on such amounts to the extent provided in the MBIA
4 Reimbursement Agreement at the non-default rate.

5 (c) Impairment and Voting. Class 4c is impaired by the Plan. Each
6 holder of an Allowed MBIA Claim is entitled to vote to accept or reject the Plan.

7 4.9 Class 4d - Letter of Credit Backed PC Bond Claims.

8 (a) Allowance. The Letter of Credit Backed PC Bond Claims shall be
9 deemed Allowed Letter of Credit Backed PC Bond Claims in the amount of \$613,550,000, plus
10 accrued and unpaid pre-petition interest on such amount, plus Allowed Claims in the amount of
11 all unpaid fees and expenses of the related Issuer and Bond Trustee accrued through the Petition
12 Date under the terms of the applicable PC Bond Documents.

13 (b) Reinstatement of Claims. Each series of Letter of Credit Backed
14 PC Bonds, and each of the PC Bond Documents, shall remain outstanding and be reinstated in
15 accordance with section 1124(2) of the Bankruptcy Code. Each holder of a Letter of Credit
16 Backed PC Bond will be paid Cash in an amount equal to any and all accrued and unpaid interest
17 owed to such holder in respect of such Letter of Credit Backed PC Bond in accordance with the
18 terms thereof to and including the last scheduled interest payment date preceding the Effective
19 Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the
20 applicable Loan Agreement shall also be paid in Cash.

21 (c) Impairment and Voting. Class 4d is unimpaired by the Plan. Each
22 holder of an Allowed Letter of Credit Backed PC Bond Claim is conclusively presumed to have
23 accepted the Plan and is not entitled to vote to accept or reject the Plan.

24 4.10 Class 4e - Letter of Credit Bank Claims.

25 (a) Allowance. The Letter of Credit Bank Claims with respect to
26 payments which may become due by the Debtor under the terms of each of the Reimbursement
27 Agreements as reimbursement for amounts drawn under the Letter of Credit shall be deemed
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1 contingent Claims in an amount equal to the outstanding Stated Amount of each of the Letters of
2 Credit, and Letter of Credit Bank Claims for any and all other accrued and unpaid amounts due
3 by the Debtor under each of the Reimbursement Agreements, including any and all amounts due
4 by the Debtor as reimbursement of amounts paid by a Letter of Credit Issuing Bank under its
5 Letter of Credit to the Bond Trustee for the payment of interest on the related Letter of Credit
6 Backed PC Bonds, shall be deemed Allowed Letter of Credit Bank Claims.

7 (b) Distributions.

8 (i) Commencing within ten (10) days after the Confirmation
9 Date, to the extent that the Debtor has not reimbursed the applicable Letter of Credit Issuing
10 Bank and the applicable Banks, if any, for drawings made on the related Letter of Credit with
11 respect to the payment of interest on the related series of Letter of Credit Backed PC Bonds to
12 the extent provided in the respective Reimbursement Agreement, each holder of an Allowed
13 Letter of Credit Bank Claim will be paid Cash in an amount equal to its pro rata share of the
14 aggregate amount paid by the respective Letter of Credit Issuing Bank to the respective Bond
15 Trustee under the terms of the applicable Letter of Credit with respect to the payment of the
16 interest on the Letter of Credit Backed PC Bonds to which such Letter of Credit Bank Claim
17 relates during the period from the Petition Date to and including the last scheduled interest
18 payment date on such Letter of Credit Backed PC Bonds preceding the Effective Date. Each
19 holder of an Allowed Letter of Credit Bank Claim will also be paid Cash in an amount equal to
20 its pro rata share of all other amounts then due and owing to the respective Letter of Credit
21 Issuing Bank and the applicable Banks, if any, under the terms of the respective Reimbursement
22 Agreement (other than for reimbursement of drawings on the respective Letter of Credit) through
23 the Effective Date, including, without limitation, interest at the interest rate due on such amounts
24 to the extent provided in the respective Reimbursement Agreements, and any due and owing
25 applicable Forbearance, Extension and Letter of Credit Fees (as hereinafter defined) through the
26 Effective Date, and the reasonable fees and expenses of unrelated third party professionals
27 retained by the Letter of Credit Issuing Banks, to the extent incurred subsequent to the Petition
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1 Date in the Chapter 11 Case, which with respect to each Letter of Credit Issuing Bank for the
2 period prior to December 1, 2001, to the extent payment of such fees and expenses are approved
3 by the Bankruptcy Court prior to the Confirmation Date and such payment is made prior to the
4 Confirmation Date, shall be in an aggregate amount equal to the amount mutually agreed to by
5 the Debtor and each Letter of Credit Issuing Bank. The interest rate on each Letter of Credit
6 Bank Claim, interest payment start date and interest payment intervals are set forth on Exhibit 1
7 hereto.

8 (ii) On the Effective Date one of the following shall occur with
9 respect to each series of Letter of Credit Backed PC Bonds and its respective Letter of Credit, at
10 the option of the Debtor separately for each series of Letter of Credit Backed PC Bonds:

11 (A) Purchase Option. The respective series of Letter of
12 Credit Backed PC Bonds shall be called for mandatory tender in accordance with the terms of the
13 respective Indenture and shall be purchased by the respective Bond Trustee through a draw on
14 the related Letter of Credit and, at the option of the respective Letter of Credit Issuing Bank,
15 shall either be registered in the name of the respective Letter of Credit Issuing Bank or in the
16 name of the Debtor subject to a first lien security interest in favor of the respective Letter of
17 Credit Issuing Bank to additionally secure the obligations of the Debtor under the related
18 Reimbursement Agreement. On the Effective Date, to the extent that the Debtor has not
19 reimbursed the applicable Letter of Credit Issuing Bank and the applicable Banks, if any, for
20 drawings made on the related Letter of Credit with respect to the payment of interest on the
21 related series of Letter of Credit Backed PC Bonds to the extent provided in the respective
22 Reimbursement Agreement, each holder of an Allowed Letter of Credit Bank Claim will receive
23 Cash in an amount equal to its pro rata share of the interest portion of the purchase price of the
24 tendered Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit.
25 On the Effective Date, the Letter of Credit Issuing Bank shall transfer the related Letter of Credit
26 Backed PC Bonds in the aggregate principal amount as set forth on Exhibit 2 attached hereto to
27 the Debtor free and clear of all liens. On the Effective Date, each holder of an Allowed Letter of
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1 Credit Bank Claim will receive its pro rata share of Cash in an amount equal to the principal
2 portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a
3 draw on the respective Letter of Credit.

4 (B) Remarketing Option. The respective series of
5 Letter of Credit Backed PC Bonds shall be called for mandatory tender in accordance with the
6 terms of the respective Indenture and shall be purchased by the respective Bond Trustee through
7 a draw on the related Letter of Credit. The Debtor will then either (1) provide or cause to be
8 provided to the respective Bond Trustee an alternative “Credit Facility” pursuant to the terms of
9 the respective Indenture in lieu of the existing Letter of Credit, or (2) shall obtain the consent of
10 the Issuer to remarket the respective series of Letter of Credit Backed PC Bonds without credit
11 enhancement in accordance with the terms of the applicable Indenture. In either event the
12 respective series of Letter of Credit Backed PC Bonds shall be remarketed, at par, in accordance
13 with the terms of the Indenture and the other PC Bond Documents. In such event, on the
14 Effective Date, the Letter of Credit Issuing Bank will receive (1) from the Debtor, to the extent
15 that the Debtor has not reimbursed the applicable Letter of Credit Issuing Bank and the
16 applicable Banks, if any, for drawings made on the related Letter of Credit with respect to the
17 payment of interest on the related series of Letter of Credit Backed PC Bonds to the extent
18 provided in the respective Reimbursement Agreement, Cash in an amount equal to the interest
19 portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a
20 draw on the respective Letter of Credit, and (2) from the Bond Trustee, an amount equal to the
21 principal portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid
22 out of a draw on the respective Letter of Credit, which amount shall be paid from the
23 remarketing proceeds of the respective Letter of Credit Backed PC Bonds in accordance with the
24 terms of the respective Indenture.

25 (C) No Bonds Option. With respect to each Letter of
26 Credit Issuing Bank and the related Banks, if any, in the event that neither the Purchase Option
27 nor the Remarketing Option, as applicable, can be consummated or the respective series of Letter
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1 of Credit Backed PC Bonds are redeemed on or prior to the Effective Date as the result of the
2 expiration of the respective Letter of Credit or otherwise, then either:

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

9 (2) If (i) the Letter of Credit Issuing Bank
10 maintains its Letter of Credit outstanding in its initial stated amount through the Effective Date
11 and does not provide the Trustee with notice of default under its Reimbursement Agreement or
12 non-reinstatement of its Letter of Credit or take any other action which would result in the
13 redemption, either in whole or in part, of the outstanding Letter of Credit Backed PC Bonds
14 without the prior written consent of the Debtor, and (ii) the Letter of Credit Issuing Bank and
15 each of the related Banks, if any, take all action reasonably required by the Debtor to keep the
16 Letter of Credit Backed PC Bonds outstanding and to facilitate either the Purchase Option or the
17 Remarketing Option, as applicable, including, without limitation, giving direction to the Trustee,
18 providing commercially reasonable indemnification to the Issuer and Trustee, and using their
19 best efforts to consummate the proposed amendments to the terms of the Letter of Credit Backed
20 PC Bonds as set forth herein and to consummate either the Purchase Option or the Remarketing
21 Option as applicable, so as to maintain for the Debtor the benefits of the tax-exempt financing
22 provided by the related series of Letter of Credit Backed PC Bonds, then in the event that the
23 Letter of Credit Backed PC Bonds are redeemed on or prior to the Effective Date for reasons
24 beyond the control of the Letter of Credit Issuing Bank, the Letter of Credit Issuing Bank will
25 receive Cash in an amount equal to the principal portion of the redemption price of the redeemed
26 Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit.

1 (iii) Since the Petition Date, consistent with its duties as a
2 Debtor-in-Possession, the Debtor has not reimbursed any of the Letter of Credit Issuing Banks
3 for any of the payments they have made pursuant to the several post-petition draws by the
4 respective Bond Trustee which have been applied to the payment of interest on the related series
5 of Letter of Credit Backed PC Bonds. As a result thereof, each of the Letter of Credit Issuing
6 Banks has had the right upon the passage of time, the giving of notice or both to (A) declare a
7 default under its respective Reimbursement Agreement, (B) notify the respective Bond Trustee
8 of such default, and (C) direct the respective Bond Trustee to call an “Event of Default” under
9 the terms of the respective Indenture and, in accordance with the terms of the respective
10 Indenture, cause the Bond Trustee to declare the respective series of Letter of Credit Backed PC
11 Bonds immediately due and payable.

12 (iv) However, pursuant to the terms of an agreement, subject to
13 Bankruptcy Court approval, among the Debtor and each of the Letter of Credit Issuing Banks
14 (the “LC Bank Agreement”), the Letter of Credit Issuing Banks have agreed, among other things
15 and subject to certain conditions, to (A) maintain each of the Letters of Credit outstanding in the
16 stated amounts set forth on Exhibit 2 attached hereto, (B) not provide the Trustee with notice of
17 any default under any of the Reimbursement Agreements or non-reinstatement of any of the
18 Letters of Credit or take any other action which would result in the mandatory tender or
19 redemption, either in whole or in part, of any of the outstanding Letter of Credit Backed PC
20 Bonds without the prior written consent of the Debtor, and (C) extend the expiration date of each
21 of the Letters of Credit to the first business day subsequent to the one year anniversary of the
22 existing expiration date of each Letter of Credit existing as of the Petition Date. In consideration
23 for such forbearance and other actions by the Letter of Credit Issuing Banks, the Debtor has
24 agreed, among other things and subject to certain conditions, to pay to each Letter of Credit
25 Issuing Bank, (1) during the period from and after the date such payments are approved by the
26 Bankruptcy Court and continuing until the Confirmation Date, quarterly, in arrears, the Letter of
27 Credit fee as set forth in the respective Reimbursement Agreement (the “Original Letter of Credit”
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1 Fee”), together with an amount equal to the positive difference, if any, of an amount per annum
2 equal to two percent (2%) of the Stated Amount of the Letter of Credit, less the Original Letter
3 of Credit Fee, which total fee accrues from and after December 1, 2001 and until the
4 Confirmation Date, and has been payable on the same dates as are set forth for payment of Letter
5 of Credit Fees in the applicable Reimbursement Agreement, and (2) during the period from and
6 after the Confirmation Date and continuing until the Effective Date, quarterly, in arrears, the
7 Original Letter of Credit Fee, together with an amount equal to the positive difference, if any, of
8 an amount per annum equal to three percent (3%) of the Stated Amount of the Letter of Credit,
9 less the Original Letter of Credit Fee, which total fee accrues from and after the Confirmation
10 Date until the Effective Date, and shall be payable on the same dates as are set forth for payment
11 of Letter of Credit fees in the applicable Reimbursement Agreement (the Original Letter of
12 Credit Fee together with such additional sums being hereinafter referred to collectively as the
13 “Forbearance, Extension and Letter of Credit Fees”); provided, however, that in the event the LC
14 Bank Agreement has not been timely approved by the Court, then in lieu of the payments set
15 forth in clauses (1) and (2) of this Section 4.10 (b)(iv), the Debtor has agreed, subject to certain
16 conditions, to pay to each of Letter of Credit Issuing Bank during the period from and after the
17 Confirmation Date and continuing until the Effective Date, quarterly, in arrears, its Original
18 Letter of Credit Fee, together with an amount equal to the positive difference, if any, of an
19 amount per annum, equal to three (3%) percent of the Stated Amount of its Letter of Credit, less
20 its Original Letter of Credit Fee, which total fee shall accrue from and after December 1, 2001
21 until the Effective Date, and shall be payable on the same dates as are set forth for payment of
22 Letter of Credit fees in the applicable Reimbursement Agreement. Additionally, on the
23 Confirmation Date, pursuant to the terms of the LC Bank Agreement, the Debtor has agreed,
24 among other things and subject to certain conditions, to pay to Deutsche Bank AG New York
25 Branch an agency fee in the amount of \$250,000.

26 (c) Impairment and Voting. Class 4e is impaired by the Plan. Each
27 holder of an Allowed Letter of Credit Bank Claim is entitled to vote to accept or reject the Plan.
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4.11 Class 4f - Prior Bond Claims.

(a) Allowance. The Prior Bond Claims shall be deemed Allowed Prior Bond Claims in the amount of \$453,550,000, plus any and all other accrued and unpaid amounts due by the Debtor under the terms of each of the Prior Reimbursement Agreements; provided, however, that 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 subject to increase by the amount of any Class 4e Claim that is converted to a Class 4f Claim in accordance with Section 4.10(b)(ii)(C) hereof.

(b) Distributions. 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:

(i) Each holder of an Allowed Prior Bond Claim will be paid Cash in an amount equal to (A) the outstanding Reimbursement Obligation, or portion thereof, owing to such holder, (B) 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 (C) 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.

(ii) 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 will be paid Cash in an amount equal to (A) 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 (B) all other amounts (other than the Reimbursement Obligation or applicable portion thereof) due and owing to the

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

17 (c) Impairment and Voting. Class 4f is unimpaired by the Plan. Each
18 holder of an Allowed Prior Bond Claim is conclusively presumed to have accepted the Plan and
19 is not entitled to vote to accept or reject the Plan.

20 4.12 Class 4g - Treasury PC Bond Claims.

21 (a) Allowance. The Treasury PC Bond Claims shall be deemed
22 Allowed Treasury PC Bond Claims in the amount of \$80,770,000, plus accrued and unpaid pre-
23 petition interest on such amount, plus Allowed Claims in the amount of all unpaid fees and
24 expenses of the related Issuer and Bond Trustee accrued through the Petition Date under the
25 terms of the applicable PC Bond Documents.

26 (b) Reinstatement of Claims. Each series of Treasury PC Bonds, and
27 the Loan Agreements and PC Bond Documents related thereto, shall remain outstanding and be
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1 reinstated in accordance with section 1124(2) of the Bankruptcy Code. Each holder of a
2 Treasury PC Bond shall be paid Cash in an amount equal to any and all accrued and unpaid
3 interest owed to such holder in respect of such Treasury PC Bond in accordance with the terms
4 thereof to and including the last scheduled interest payment date preceding the Effective Date.
5 All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the applicable
6 Loan Agreement shall also be paid in Cash.

7 (c) Impairment and Voting. Class 4g is unimpaired by the Plan. Each
8 holder of an Allowed Treasury PC Bond Claim is conclusively presumed to have accepted the
9 Plan and is not entitled to vote to accept or reject the Plan.

10 4.13 Class 5 - General Unsecured Claims.

11 (a) Distributions. Each holder of an Allowed General Unsecured
12 Claim shall be paid Cash in an amount equal to such Allowed Claim (which shall include pre-
13 petition interest only to the extent not previously paid).

14 (b) Impairment and Voting. Class 5 is impaired by the Plan. Each
15 holder of an Allowed General Unsecured Claim is entitled to vote to accept or reject the Plan.

16 4.14 Class 6 - ISO, PX and Generator Claims.

17 (a) Distributions. Each holder of an Allowed ISO, PX and Generator
18 Claim shall be paid Cash in an amount equal to such Allowed Claim (which shall include pre-
19 petition interest only to the extent not previously paid).

20 (b) Impairment and Voting. Class 6 is impaired by the Plan. Each
21 holder of an Allowed ISO, PX and Generator Claim is entitled to vote to accept or reject the
22 Plan.

23 4.15 Class 7 - ESP Claims.

24 (a) Distributions. Each holder of an Allowed ESP Claim shall be paid
25 Cash in an amount equal to such Allowed Claim (which shall include pre-petition interest only to
26 the extent not previously paid).

1 (b) Impairment and Voting. Class 7 is impaired by the Plan. Each
2 holder of an Allowed ESP Claim is entitled to vote to accept or reject the Plan.

3 4.16 Class 8 – Environmental, Fire Suppression, Tort and FERC License
4 Claims.

5 (a) Distributions. Subject to Section 4.16(b), each Allowed
6 Environmental, Fire Suppression, Tort and FERC License Claim shall be satisfied in full in the
7 ordinary course of business at such time and in such manner as the Debtor or the Reorganized
8 Debtor, as the case may be, is obligated to satisfy such Allowed Claim under applicable law.
9 Except as provided under applicable non-bankruptcy law, Post-Petition Interest will not be paid
10 on Allowed Environmental, Fire Suppression, Tort and FERC License Claims.

11 (b) Liquidation of Environmental, Fire Suppression, Tort and FERC
12 License Claims. All Environmental, Fire Suppression, Tort and FERC License Claims are
13 Disputed Claims and shall be determined, resolved, or adjudicated, as the case may be, in a
14 manner as if the Chapter 11 Case had not been commenced (except that, under sections 365
15 and/or 1123(b)(2) of the Bankruptcy Code, contractual provisions, accelerations and defaults
16 eliminated or rendered unenforceable by such sections shall remain eliminated or unenforceable,
17 and the stay shall remain in place for any Environmental, Fire Suppression, Tort and FERC
18 License Claims as to which sections 365 and/or 1123(b)(2) of the Bankruptcy Code are
19 applicable) and shall survive the Effective Date as if the Chapter 11 Case had not been
20 commenced and, upon the determination, resolution or adjudication of any such Claim as
21 provided herein, such Claim shall be deemed to be an Allowed Environmental Claim, Allowed
22 Fire Suppression Claim, Allowed Tort Claim or Allowed FERC License Claim, as the case may
23 be, in the amount or in the manner determined by a Final Order or by a binding award,
24 agreement, or settlement; provided, however, that in addition to the Debtor's preservation of all
25 rights and defenses respecting any Environmental Claim, Fire Suppression Claim, Tort Claim or
26 FERC License Claim that exist under applicable nonbankruptcy law, (i) any rejection, avoidance,
27 recovery or other power or defense available to the debtor under section 365, 510 (except
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1 subordination), 542, 543, 544, 545, 547, 548, 549, 550, 553 or 724 of the Bankruptcy Code is
2 preserved, except with respect to any Environmental Order, and (ii) the Debtor may object under
3 section 502 of the Bankruptcy Code to any Environmental Claim, Fire Suppression Claim, Tort
4 Claim or FERC License Claim on the ground that (A) such Environmental Claim, Fire
5 Suppression Claim, Tort Claim or FERC License Claim was not timely asserted in the Chapter
6 11 Case, (B) such Environmental Claim, Fire Suppression Claim, Tort Claim or FERC License
7 Claim is subject to any power or defense reserved in clause (i) of this sentence and/or is
8 disallowable under section 502(d) of the Bankruptcy Code, or (C) such Environmental Claim,
9 Fire Suppression Claim, Tort Claim or FERC License Claim is disallowable under section 502(e)
10 of the Bankruptcy Code, to the extent such section is relied on to ensure that there is no
11 duplication in the claim of an allegedly subrogated claimant, on the one hand, and the underlying
12 claimant whose claim allegedly gave rise to the subrogated claim, on the other. Subject to the
13 foregoing, all Environmental, Fire Suppression, Tort Claims and FERC License Claims shall be
14 determined and liquidated under applicable nonbankruptcy law in the administrative or judicial
15 tribunal in which they are pending as of the Effective Date or, if no such action is pending on the
16 Effective Date, in any administrative or judicial tribunal of appropriate jurisdiction (other than
17 the Bankruptcy Court). To effectuate the foregoing, the entry of the Confirmation Order shall,
18 effective as of the Effective Date, constitute a modification of any stay or injunction under the
19 Bankruptcy Code that would otherwise preclude the determination, resolution, or adjudication of
20 any Environmental Claims, Fire Suppression Claims, Tort Claims or FERC License Claims,
21 except for any Environmental Claim, Fire Suppression Claim, Tort Claim or FERC License
22 Claim arising out of the exercise by the Debtor, as Debtor-in-Possession, of any rejection,
23 avoidance, recovery, or other power or defense available to it pursuant to any one or more of
24 sections 365, 510 (except subordination), 542, 543, 544, 545, 547, 548, 549, 550, 553 or 724 of
25 the Bankruptcy Code, except with respect to any Environmental Order. Nothing contained in
26 this section 4.16(b) will constitute or be deemed to constitute a waiver of any (i) claim, right or
27 Cause of Action that the Debtor or Reorganized Debtor may have against any Person or
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1 Governmental Entity in connection with or arising out of any Environmental, Fire Suppression,
2 Tort and FERC License Claims, including, but not limited to, any rights under Section 157(b) of
3 Title 28, United States Code, or (ii) defense in any action or proceeding in any administrative or
4 judicial tribunal, including, but not limited to, with respect to the jurisdiction of such
5 administrative or judicial tribunal, except a defense to a Claim that was timely filed in the
6 Chapter 11 Case and that constitutes an Environmental Claim, a Fire Suppression Claim, a Tort
7 Claim or a FERC License Claim, where such defense is based on the discharge of section
8 1141(d) of the Bankruptcy Code. In light of the unimpaired pass-through treatment of
9 Environmental Claims, Fire Suppression Claims, Tort Claims and FERC License Claims
10 hereunder, the Reorganized Debtor waives the discharge of section 1141(d) of the Bankruptcy
11 Code as to any Claim that was timely filed in the Chapter 11 Case and that constitutes an
12 Environmental Claim, a Fire Suppression Claim, a Tort Claim or a FERC License Claim.

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

24 (c) Impairment and Voting. Class 8 is unimpaired by the Plan. Each
25 holder of an Allowed Environmental, Fire Suppression, Tort Claim and FERC License Claim is
26 conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the
27 Plan.
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4.17 Class 9 - Chromium Litigation Claims.

(a) Distributions. Each Allowed Chromium Litigation Claim shall be satisfied in full in the ordinary course of business at such time and in such manner as the Debtor or the Reorganized Debtor, as the case may be, is obligated to satisfy such Allowed Claim under applicable law. Except as provided under applicable non-bankruptcy law, Post-Petition Interest will not be paid on Chromium Litigation Claims.

(b) Impairment and Voting. Class 9 is unimpaired by the Plan. Each holder of an Allowed Chromium Litigation Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.18 Class 10 - Convenience Claims.

(a) Distributions. Each holder of an Allowed Convenience Claim shall be paid Cash in an amount equal to one hundred percent (100%) of such Allowed Claim.

(b) Impairment and Voting. Class 10 is unimpaired by the Plan. Each holder of an Allowed Convenience Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.19 Class 11 - QUIDS Claims.

(a) Allowance. The QUIDS Claims shall be deemed Allowed QUIDS Claims in the amount of \$300,000,000, plus accrued and unpaid pre-petition interest on such amount.

(b) Distributions. Each holder of an Allowed QUIDS Claim shall be paid Cash in an amount equal to such Allowed Claim.

(c) Impairment and Voting. Class 11 is impaired by the Plan. Each holder of an Allowed QUIDS Claim is entitled to vote to accept or reject the Plan.

4.20 Class 12- Workers' Compensation Claims.

(a) Distributions. Each Allowed Workers' Compensation Claim arising prior to the Petition Date shall be satisfied in full in the ordinary course of business at such time and in such manner as the Debtor or the Reorganized Debtor, as the case may be, is

1 obligated to satisfy such Allowed Claim under applicable law. Post-Petition Workers'
2 Compensation Claims are treated as Administrative Expense Claims herein and shall receive the
3 same pass-through treatment as Workers' Compensation Claims arising prior to the Petition
4 Date. Except as allowed under applicable non-bankruptcy law, Post-Petition Interest will not be
5 paid on any Workers' Compensation Claims. Nothing herein shall affect (i) the subrogation
6 rights, to the extent applicable or available, of any surety of pre-petition or post-petition
7 Workers' Compensation Claims or (ii) the rights of the Debtor to object, pursuant to the
8 Bankruptcy Code, to the existence of any such subrogation rights.

9 (b) Impairment and Voting. Class 12 is unimpaired under the Plan.
10 Each holder of an Allowed Workers' Compensation Claim is conclusively presumed to have
11 accepted the Plan and is not entitled to vote to accept or reject the Plan.

12 4.21 Class 13 - Preferred Stock Equity Interests.

13 (a) Treatment. Each holder of a Preferred Stock Equity Interest shall
14 retain its Preferred Stock in the Reorganized Debtor and shall be paid in Cash any dividends and
15 sinking fund payments accrued in respect of such Preferred Stock through the last scheduled
16 payment date prior to the Effective Date.

17 (b) Impairment and Voting. While the Commission believes that
18 Class 13 is unimpaired by the Plan, certain holders of Preferred Stock Equity Interests may
19 believe that Class 13 is impaired by the Plan. To avoid delaying the voting process, holders of
20 Preferred Stock Equity Interests are being solicited to vote on the Plan as a precautionary
21 measure so that the voting results will be available if it is determined by the Bankruptcy Court
22 that such Class is impaired. Allowing the holders of Preferred Stock Equity Interests to vote
23 shall be without prejudice to the Commission's contention that this Class is unimpaired and the
24 Commission reserves the right to contest any objection to the unimpaired status of this Class.

1 5.3 Nonconsensual Confirmation. If any Impaired Class of Claims or Equity
2 Interests entitled to vote shall not accept the Plan by the requisite statutory majorities provided in
3 section 1126(c) of the Bankruptcy Code, then the Commission reserves the right to amend the
4 Plan in accordance with Section 11.10 hereof or to undertake to have the Bankruptcy Court
5 confirm the Plan under section 1129(b) of the Bankruptcy Code, or both.

6 5.4 Method of Distributions Under the Plan.

7 (a) Disbursing Agent. All distributions under the Plan shall be made
8 by the Debtor as Disbursing Agent or such other Entity designated by the Commission as
9 Disbursing Agent. A Disbursing Agent shall not be required to provide any bond, surety or other
10 security for the performance of its duties, unless otherwise ordered by the Bankruptcy Court;
11 and, in the event that a Disbursing Agent is so otherwise ordered, all costs and expenses of
12 procuring any such bond, surety or other security shall be borne by the Debtor.

13 (b) Distributions to Holders as of the Distribution Record Date.

14 (i) Subject to Bankruptcy Rule 9010, all distributions under
15 the Plan shall be made (A) to the holder of each Allowed Claim or Equity Interest at the address
16 of such holder as listed on the Debtor's Bankruptcy Schedules as of the Distribution Record
17 Date, unless the Debtor has been notified in writing of a change of address, including, without
18 limitation, by the filing of a timely proof of Claim or Equity Interest by such holder that provides
19 an address for such holder different from the address reflected on the Debtor's Bankruptcy
20 Schedules, or (B) pursuant to the terms of a particular indenture of the Debtor or in accordance
21 with other written instructions of a trustee under such indenture.

22 (ii) As at the close of business on the Distribution Record Date,
23 the claims register and records of the stock transfer agent shall be closed, and there shall be no
24 further changes in the record holder of any Claim or Equity Interest. The Debtor shall have no
25 obligation to recognize any transfer of any Claim or Equity Interest occurring after the
26 Distribution Record Date. The Debtor shall instead be authorized and entitled to recognize and
27 deal for all purposes of the Plan with only those record holders stated on the claims register or
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1 the records of the stock transfer agent as of the close of business on the Distribution Record
2 Date.

3 (c) Distributions of Cash. Any payment of Cash made by the Debtor
4 pursuant to the Plan shall, at the Debtor's option, be made by check drawn on a domestic bank or
5 wire transfer.

6 (d) Timing of Distributions. Except as otherwise set forth in the Plan,
7 payments and distributions to holders of Allowed Claims or Equity Interests on the Effective
8 Date shall be made on the Effective Date, or as soon as practicable thereafter. Any payment or
9 distribution required to be made under the Plan on a day other than a Business Day shall be made
10 on the next succeeding Business Day.

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

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

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

24 (h) Escrow for Disputed Claims.

25 (i) General Treatment. On the Effective Date (or as soon as
26 practicable thereafter), and after making all distributions required to be made on the Effective
27 Date, the Reorganized Debtor shall establish one or more separate escrows, each of which shall
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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, the
4 Reorganized Debtor shall establish one escrow solely for the benefit of any Disputed Chromium
5 Litigation Claims and shall maintain such escrow separate from any escrow(s) established for the
6 benefit of any other Disputed Claims; and provided further, that this provision shall not apply to
7 Environmental Claims, Fire Suppression Claims, Tort Claims and FERC License Claims. No
8 distributions from the escrow(s) shall be made until such Disputed Claims have been Allowed or
9 otherwise resolved by the Bankruptcy Court and any such distributions shall be made in
10 accordance with the terms hereof. The Cash deposited into the escrow account(s) shall be
11 invested in either (i) money market funds consisting primarily of short-term U.S. treasury
12 securities, or (ii) obligations guaranteed by the United States of America or any agency thereof,
13 at the Debtor's option. Except as set forth in the preceding sentence, neither the Debtor nor any
14 Related Party (within the meaning of Treasury Regulation Section 1.468B-1(d)(2)) shall have
15 any discretion over the disposition or investment of property in the escrow with respect to
16 Disputed Chromium Litigation Claims. To the extent a Disputed Claim becomes an Allowed
17 Claim, such Allowed Claim will be satisfied in the same manner as all other Allowed Claims of
18 such holder's Class. In addition, such holder will receive Post-Petition Interest (to the extent
19 such holder is entitled to Post-Petition Interest under the Plan). From and after the Effective
20 Date, such Disputed Claim will earn interest at the same rate earned on the Cash deposited in
21 escrow.

22 (ii) Termination of Escrow(s). The escrow(s) shall be
23 terminated by the Reorganized Debtor when all distributions from the escrow account(s) have
24 been made in accordance with the Plan. If any Cash remains in an escrow account after all
25 Disputed Claims for which such escrowed property is being held have been resolved and
26 distributions made in respect thereof, such Cash shall revert to and become property of the
27 Reorganized Debtor. In determining the aggregate amount necessary to fund any escrow
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1 account(s), the Debtor may deposit the estimated allowable amount of any Disputed Claim, as
2 determined by the Bankruptcy Court. Any such escrow(s) established pursuant to this section
3 5.4(h) shall be subject to the continuing jurisdiction of the Bankruptcy Court.

4 (iii) Additional Cash. If the amount of Cash deposited into the
5 escrow(s) is insufficient to make the required payments once certain Disputed Claims become
6 Allowed Claims, then the Reorganized Debtor will pay the holder of such Allowed Claim the
7 Cash necessary to satisfy the shortfall. Any deficiency in the amount of Cash deposited into the
8 escrow(s) shall not limit the Reorganized Debtor's obligation to satisfy Disputed Claims which
9 subsequently become Allowed Claims, and the Reorganized Debtor shall remain liable to satisfy
10 such Allowed Claims pursuant to the Plan.

11 (iv) Tax Treatment of Certain Escrows for Disputed Claims.
12 Subject to definitive guidance from the IRS or a court of competent jurisdiction to the contrary
13 (including the receipt by the Disbursing Agent of a private letter ruling, or the receipt of an
14 adverse determination by the IRS upon audit if not consented to by the Disbursing Agent), the
15 Disbursing Agent shall treat the escrow with respect to any Disputed Chromium Litigation
16 Claims as a "qualified settlement fund" within the meaning of Treasury Regulation Section
17 1.468B-1. All Persons (including all holders of such Claims) shall report consistently with such
18 treatment.

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

13 5.6 Payment of the Trustees', Issuer's and Certain Bank Fees. To the extent
14 allowed by law and any underlying agreement, any unpaid fees and expenses accrued through
15 the Confirmation Date (except for any unpaid fees and expenses previously disallowed by the
16 Bankruptcy Court) of the Bond Trustees and the trustees under the Mortgage, and various
17 indentures, including, but not limited to, the Southern San Joaquin Valley Power Authority
18 Agreement (acting in their capacities as trustees and, if applicable, acting in their capacities as
19 disbursing agents), the Issuer of the PC Bonds and their respective professionals, and Bank of
20 America, N.A., in its capacity as administrative agent under the Revolving Line of Credit
21 (including such administrative agent's attorney's fees), shall be paid by the Debtor within ten
22 (10) days after the Confirmation Date. Any such fees and expenses accruing after the
23 Confirmation Date shall be payable as provided in the applicable agreement providing for such
24 payment, or, in the case of Bank of America, N.A., in its capacity as administrative agent under
25 the Revolving Line of Credit, at least quarterly. Upon payment of such fees and expenses, such
26 Persons shall be deemed to have released their Liens securing payment of their fees and expenses
27 for all fees and expenses accrued through the Effective Date
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1 right, on or prior to the conclusion of the confirmation hearing, to amend Schedules 6.1(a)(i) and
2 6.1(a)(ii) to PG&E's Plan Supplement to delete any executory contract or unexpired lease
3 therefrom or to add any executory contract or unexpired lease thereto, in which event such
4 executory contract(s) or unexpired lease(s) shall be deemed to be assumed by the Debtor or
5 rejected, as the case may be, as of the Effective Date. The Debtor will give notice of any such
6 amendment to each counterparty to any executory contract or unexpired lease the status of which
7 is changed as a result of the amendment (i.e., any executory contract which is to be assumed or
8 rejected as a result of the amendment) and to the Commission. If the counterparty opposes such
9 proposed amendment, the Debtor and the Commission will make all reasonable efforts to provide
10 such counterparty a reasonable opportunity under the circumstances to object prior to
11 confirmation of the Plan, and to the extent that such counterparty has the right to vote on the
12 Plan, or becomes entitled to vote on the Plan as a result of the amendment to Schedule 6.1(a)(i)
13 or 6.1(a)(ii) to PG&E's Plan Supplement, to provide such counterparty a reasonable amount of
14 time to cast a Ballot to accept or reject the Plan and indicate its preference between this Plan and
15 PG&E's Plan, or to amend its Ballot. The listing of a document on Schedules 6.1(a)(i) or
16 6.1(a)(ii) to PG&E's Plan Supplement shall not constitute an admission by the Debtor that such
17 document is an executory contract or an unexpired lease or that the Debtor has any liability
18 thereunder. Notwithstanding anything to the contrary, the Debtor waives its right to make
19 amendments pursuant to this Section 6.1(a) with respect to the assumption of the PG&E-Western
20 Area Power Administration Contract 2948A and related contracts, as described in Exhibit G to
21 PG&E's Disclosure Statement.

22 6.2 Schedules of Rejected Executory Contracts and Unexpired Leases;

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

9 6.3 Approval of Assumption or Rejection of Executory Contracts and
10 Unexpired Leases. Entry of the Confirmation Order shall, subject to and upon the occurrence of
11 the Effective Date, constitute (i) the approval, pursuant to sections 365(a) and 1123(b)(2) of the
12 Bankruptcy Code, of the assumption of the executory contracts and unexpired leases assumed
13 pursuant to Section 6.1 hereof, (ii) the extension of time, pursuant to section 365(d)(4) of the
14 Bankruptcy Code, within which the Debtor may assume or reject the unexpired leases of non-
15 residential property specified in Section 6.1 hereof through the date of entry of the Confirmation
16 Order, and (iii) the approval, pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code,
17 of the rejection of the executory contracts and unexpired leases rejected pursuant to Section 6.1
18 hereof.

19 6.4 Cure of Defaults. Except as may otherwise be agreed to by the parties,
20 within thirty (30) days after the Effective Date, the Debtor shall cure any and all undisputed
21 defaults under any executory contract or unexpired lease assumed by the Debtor pursuant to
22 Section 6.1 hereof, in accordance with section 365(b)(1) of the Bankruptcy Code. All disputed
23 defaults that are required to be cured shall be cured either within thirty (30) days of the entry of a
24 Final Order determining the amount, if any, of the Debtor's liability with respect thereto, or as
25 may otherwise be agreed to by the parties.

26 6.5 Bar Date for Filing Proofs of Claim Relating to Executory Contracts and
27 Unexpired Leases Rejected Pursuant to, or Omitted from, the Plan. Claims arising out of the
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1 rejection of an executory contract or unexpired lease pursuant to Section 6.1 hereof must be
2 properly filed in the Chapter 11 Case and served upon the Debtor no later than thirty (30) days
3 after the later of (i) notice of entry of an order approving the rejection of such executory contract
4 or unexpired lease, (ii) notice of entry of the Confirmation Order, and (iii) notice of an
5 amendment to Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement. All such Claims not
6 filed within such time shall be forever barred from assertion against the Debtor, its estate and its
7 property.

8 6.6 Assumed Indemnification Obligations. The Assumed Indemnification
9 Claims shall, in all respects, irrespective of whether such claims arise under contracts or
10 executory contracts, survive confirmation of the Plan, remain unaffected thereby, and not be
11 discharged irrespective of whether indemnification, defense, reimbursement or limitation is owed
12 in connection with an event occurring before, on or after the Petition Date.

13 6.7 Compensation and Benefit Programs. Except as provided in Section 6.1
14 hereof, all savings, retirement, health care, severance, performance-based cash incentive,
15 retention, employee welfare benefit, life insurance, disability and other similar plans and
16 agreements of the Debtor are treated as executory contracts under the Plan and shall, on the
17 Effective Date, be deemed assumed by the Debtor in accordance with sections 365(a) and
18 1123(b)(2) of the Bankruptcy Code, and any defaults thereunder shall be cured as provided in
19 Section 6.4 hereof.

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.

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ARTICLE VII

IMPLEMENTATION OF THE PLAN

7.1 Issuance of Securities. On or before the Effective Date, or as soon as practical thereafter, the Reorganized Debtor shall issue and sell, through one or more public or private offerings, new debt securities of and common stock in the Reorganized Debtor, the net proceeds of which, in addition to the Debtor’s available Cash, will be sufficient to satisfy in full in Cash all Allowed Claims under the Plan to be paid in Cash. The terms and estimated amounts of debt securities and common equity 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. The securities to be issued are described generally below:

(a) Reorganized Debtor New Money Notes. On or before the Effective Date, or as soon as practical thereafter, 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) Common Stock On or before the Effective Date, or as soon as practicable thereafter, the Reorganized Debtor shall issue and sell, through one or more private or public offerings, such number of shares of Common Stock in the Reorganized Debtor as is sufficient to yield net proceeds of approximately \$1.75 billion. The net proceeds of the Reorganized Debtor’s issuance and sale of Common Stock shall be used to fund payments to holders of Allowed Claims and Allowed Equity Interests.

1 7.2 Settlement of Litigation. On the Effective Date, or as soon as practical
2 thereafter, the Debtor shall dismiss all Claims Against the State, with prejudice.

3 7.3 New Tax Sharing Agreement. The Reorganized Debtor and the Parent
4 shall have executed and delivered the New Tax Sharing Agreement.

5 7.4 Corporate Governance.

6 (a) Board of Directors. The members of the Board of Directors of the
7 Debtor 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 (b) Officers. The officers of the Debtor immediately prior to the
12 Effective Date shall serve as the initial officers of the Reorganized Debtor on and after the
13 Effective Date. Such officers shall serve in accordance with any employment agreement with
14 the Reorganized Debtor and applicable law.

15 (c) Articles of Incorporation and Bylaws. The articles of
16 incorporation and bylaws of the Reorganized Debtor shall be amended to contain provisions
17 necessary to (i) prohibit the issuance of nonvoting equity securities as required by
18 section 1123(a)(6) of the Bankruptcy Code, subject to further amendment of such articles of
19 incorporation and bylaws as permitted by applicable law, (ii) authorize the issuance of shares of
20 Common Stock in the Reorganized Debtor pursuant to Section 7.1(b) of the Plan, and (iii)
21 effectuate the other provisions of the Plan, in each case without any further action by the
22 Debtor's shareholders or Board of Directors.

23 7.5 Regulatory Approvals. The Debtor shall timely seek all regulatory
24 approvals from all applicable Governmental Entities, including the Commission, that are
25 necessary to effectuate the transactions specified herein.

26 7.6 Working Capital Facility. The Reorganized Debtor shall obtain and
27 establish a working capital facility for the purposes of funding operating expenses and seasonal
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1 fluctuations in working capital and providing letters of credit, the terms of which are set forth on
2 Exhibit 3.

3 7.7 Regulatory Issues. Consistent with applicable law, the Commission shall
4 regulate the Reorganized Debtor's operations to the full extent that it regulated the Debtor's
5 operations prior to the Petition Date under traditional cost-of-service ratemaking. In that regard,
6 the Reorganized Debtor shall operate its business in accordance with all applicable laws and
7 regulations promulgated or issued by the Commission and all other Governmental Entities
8 having jurisdiction over its business.

9 ARTICLE VIII

10 CONFIRMATION AND EFFECTIVENESS OF THE PLAN

11 8.1 Conditions Precedent to Confirmation. The Plan shall not be confirmed
12 by the Bankruptcy Court unless and until the following conditions shall have been satisfied:

13 (a) the Bankruptcy Court shall have entered an order or orders, which
14 may be the Confirmation Order, approving the Plan, authorizing and directing the Debtor to
15 execute, enter into and deliver the Plan, and to execute, implement and take all actions necessary
16 or appropriate to give effect to the transactions contemplated by the Plan; and

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

19 8.2 Conditions Precedent to Effectiveness. The Plan shall not become
20 effective unless and until the following conditions shall have been satisfied or waived pursuant to
21 Section 8.4 hereof:

22 (a) the Confirmation Order, in form and substance acceptable to the
23 Commission, shall have been entered by the Bankruptcy Court on or before October 31, 2002,
24 and shall have become a Final Order;

25 (b) the Effective Date shall have occurred on or before January 31,
26 2003;

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

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

7 (e) the Bankruptcy Court shall have entered an order, which may be
8 the Confirmation Order, approving the Debtor's dismissal with prejudice of the Claims against
9 the State;

10 (f) the Debtor shall dismiss all Claims Against the State with
11 prejudice and the Debtor shall have executed and delivered to the Commission all pleadings and
12 release documents required by the Commission and the State of California, which shall be in
13 form and substance satisfactory to the Commission and the State.

14 (g) S&P and Moody's shall have issued credit ratings for the
15 Reorganized Debtor and its debt securities of not less than BBB- and Baaa3, respectively;

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

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

22 8.3 Effect of Failure of Conditions. In the event that one or more of the
23 conditions specified in Section 8.2 hereof shall not have occurred or been waived on or before
24 January 30, 2003, (a) the Confirmation Order shall be vacated, (b) no distributions under the Plan
25 shall be made, (c) the Debtor and all holders of Claims and Equity Interests shall be restored to
26 the status quo ante as of the day immediately preceding the Confirmation Date as though the
27 Confirmation Order had never been entered, and (d) the Debtor's obligations with respect to
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1 9.4 Claims Extinguished. As of the Effective Date, any and all avoidance
2 claims accruing to the Debtor under sections 502(d), 544, 545, 547, 548, 549, 550 and 551 of the
3 Bankruptcy Code and not then pending, shall be extinguished. All other Causes of Action of the
4 Debtor, other than those expressly released or dismissed with prejudice hereunder, shall vest in
5 the Reorganized Debtor, subject, among other things, to the Commission's right to determine
6 whether any proceeds of such Causes of Action should be payable to or otherwise benefit the
7 Debtor's and the Reorganized Debtor's ratepayers.

8 9.5 Discharge of Debtor. The rights afforded herein and the treatment of all
9 Claims and Equity Interests herein shall be in exchange for and in complete satisfaction,
10 discharge and release of Claims and Equity Interests of any nature whatsoever, including any
11 interest accrued on such Claims from and after the Petition Date, against the Debtor or any of its
12 assets or properties. Except as otherwise provided herein, as of the Effective Date (a) all such
13 Claims against and Equity Interests in the Debtor shall be satisfied, discharged and released in
14 full and (b) all Persons and Governmental Entities shall be precluded from asserting against the
15 Debtor, its successors, or its assets or properties any other or further Claims or Equity Interests
16 based upon any act or omission, transaction or other activity of any kind or nature that occurred
17 prior to the Confirmation Date.

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

12 **ARTICLE X**

13 **RETENTION OF JURISDICTION**

14 Subject to the Commission's and the State of California's objections and defenses
15 based upon the Eleventh Amendment to the United States Constitution or related principles of
16 sovereign immunity or otherwise, all of which are hereby reserved, the Bankruptcy Court shall
17 have jurisdiction of all matters arising out of, or related to, the Chapter 11 Case and the Plan
18 pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for,
19 among other things, the following purposes:

- 20 (a) to hear and determine matters related to the Plan;
- 21 (b) to hear and determine applications for the assumption or rejection
22 of executory contracts or unexpired leases, if any are pending, and the allowance of cure
23 amounts and Claims resulting therefrom;
- 24 (c) to hear and determine any and all adversary proceedings,
25 applications and contested matters;
- 26 (d) to hear and determine any objection to Administrative Expense
27 Claims or Claims;
- 28

1 (e) to enter and implement such orders as may be appropriate in the
2 event the Confirmation Order is for any reason stayed, revoked, modified or vacated;

3 (f) to issue such orders in aid of execution and consummation of the
4 Plan, to the extent authorized by section 1142 of the Bankruptcy Code;

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

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

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

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

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

17 (l) to hear and determine matters concerning the escrow(s), if any,
18 established pursuant to Section 5.4(h) hereof;

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

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

22 **ARTICLE XI**

23 **MISCELLANEOUS PROVISIONS**

24 11.1 Effectuating Documents and Further Transactions. Pursuant to section
25 1142 of the Bankruptcy Code, the Debtor (or the Reorganized Debtor after the Effective Date),
26 shall execute, deliver, file or record such contracts, instruments, releases, indentures and other
27 agreements or documents and take such other actions as may be necessary or appropriate to
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1 effectuate and further evidence the terms and conditions of the Plan and any securities issued
2 pursuant to the Plan.

3 11.2 Corporate Action. On the Effective Date, all matters provided for under
4 the Plan that would otherwise require approval of the Debtor's shareholders or Board of
5 Directors shall be deemed to have occurred and shall be in effect from and after the Effective
6 Date pursuant to the applicable general corporation law of California, the state in which the
7 Debtor is incorporated, without any requirement of further action by the Debtor's shareholders or
8 Board of Directors. On the Effective Date, or as soon as practicable thereafter, the Debtor, shall,
9 if required, file its amended articles of incorporation with the Secretary of State of California, in
10 accordance with the applicable general corporation law of California.

11 11.3 Exemption from Transfer Taxes. Pursuant to section 1146(c) of the
12 Bankruptcy Code, the issuance, transfer or exchange of notes or issuance of equity securities
13 under the Plan, the creation of any mortgage, deed of trust or other security interest, the making
14 or assignment of any lease or sublease, or the making or delivery of any deed or other instrument
15 of transfer under, in furtherance of, or in connection with the Plan, shall not be subject to any
16 stamp, real estate transfer, documentary transfer, mortgage recording, sales, use or other similar
17 tax. All sale transactions consummated by the Debtor and approved by the Bankruptcy Court on
18 and after the Petition Date through and including the Effective Date, including, without
19 limitation, the sales, if any, by the Debtor of owned property or assets pursuant to section 363(b)
20 of the Bankruptcy Code, shall be deemed to have been made under, in furtherance of, or in
21 connection with the Plan and, therefore, shall not be subject to any stamp, real estate transfer,
22 documentary transfer, mortgage recording, sales, use or other similar tax.

23 11.4 Releases by Debtor.

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

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

16 11.5 Limited Release by Releasees. In consideration for release of the
17 Releasees in Section 11.4(a) and other valuable consideration, as of the Effective Date, each of
18 the Releasees, at its option, generally releases the Debtor and the Debtor-in-Possession and the
19 Reorganized Debtor, in each case in any capacity, from any and all Causes of Action held by,
20 assertable on behalf of or derivative from such Releasee, in any way relating to the Debtor, the
21 Debtor-in-Possession, the Chapter 11 Case, the Plan, negotiations regarding or concerning the
22 Plan and the ownership, management and operation of the Debtor. The release by the Debtor in
23 Section 11.4(a) hereof shall be provided only to Releasees who execute and deliver to the Debtor
24 a release as provided in this Section 11.5 and in a form acceptable to the Debtor.

25 11.6 Exculpation. As of and subject to the occurrence of the Confirmation
26 Date, (a) the Commission shall have been deemed to have negotiated the Plan in good faith, (b)
27 the Commission shall be deemed to have solicited acceptances of the Plan in good faith and in
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1 compliance with the applicable provisions of the Bankruptcy Code, including, without limitation
2 section 1125(a) of the Bankruptcy Code, and any applicable non-bankruptcy law, rule or
3 regulation governing the adequacy of disclosure in connection with such solicitation, and (c) the
4 Commission and its individual commissioners in their official capacities, and the Commission's
5 agents, employees, advisors and attorneys shall be deemed to have participated in good faith and
6 in compliance with the applicable provisions of the Bankruptcy Code in connection with the
7 offer and issuance of any securities under the Plan, and therefore, neither of the Commission nor
8 its individual commissioners nor any of the Commission's agents, employees, advisors and
9 professionals shall have or incur any liability to any holder of a Claim or Equity Interest or other
10 party in interest for any act or omission in connection with, related to, or arising out of, the
11 Chapter 11 Case, negotiations regarding or concerning the Plan, the pursuit of confirmation of
12 the Plan, the consummation of the Plan, or the administration of the Plan or the property to be
13 distributed under the Plan, except for willful misconduct or gross negligence, and, in all respects,
14 the Commission and its individual commissioners, and the Commission's agents, employees,
15 advisors and professionals shall be entitled to rely upon the advice of counsel with respect to
16 their duties and responsibilities under the Plan.

17 11.7 Termination of Committee. The appointment of the Committee shall
18 terminate on the Effective Date, subject to continuation for specific purposes by a Final Order of
19 the Bankruptcy Court.

20 11.8 Fees and Expenses.

21 (a) Upon the Bankruptcy Court's entry of a Final Order approving any
22 application by the Commission's legal and financial advisors under section 503(b)(4) of the
23 Bankruptcy Code, the amounts authorized for payment thereunder shall be treated as a
24 Professional Compensation and Reimbursement Claim and paid in accordance with the
25 provisions Section 2.2 hereof.

26 (b) From and after the Confirmation Date, the Reorganized Debtor
27 shall, in the ordinary course of business and without the necessity for any approval by the
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1 Bankruptcy Court, pay the reasonable fees and expenses of professional Persons thereafter
2 incurred, including, without limitation, those fees and expenses incurred by the Commission's
3 professionals in connection with the implementation and consummation of the Plan.

4 11.9 Payment of Statutory Fees. All fees payable pursuant to Section 1930 of
5 title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation
6 Hearing, shall be paid on or before the Effective Date.

7 11.10 Amendment or Modification of the Plan. Alterations, amendments or
8 modifications of or to the Plan may be proposed in writing by the Commission at any time prior
9 to the 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 that has accepted the Plan shall be deemed to have accepted
18 the Plan, as altered, amended or modified, if the proposed alteration, amendment or modification
19 does not materially and adversely change the treatment of such holder's Claim.

20 11.11 Severability. In the event that the Bankruptcy Court determines that any
21 provision in the Plan is invalid, void or unenforceable, such provision shall be invalid, void or
22 unenforceable with respect to the holder or holders of such Claims or Equity Interests as to
23 which the provision is determined to be invalid, void or unenforceable. The invalidity, voidness
24 or unenforceability of any such provision shall in no way limit or affect the enforceability and
25 operative effect of any other provision of the Plan.

26 11.12 Revocation or Withdrawal of the Plan. The Commission reserves the right
27 to revoke or withdraw the Plan prior to the Confirmation Date. If the Commission revokes or
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1 withdraws the Plan prior to the Confirmation Date, then the Plan shall be deemed null and void.
2 In such event, nothing contained herein shall constitute or be deemed a waiver or release of any
3 claims by or against the Debtor or any other Person or Governmental Entity, including the
4 Commission, or to prejudice in any manner the rights of the Debtor or any Person or
5 Governmental Entity, including the Commission, in any further proceedings involving the
6 Debtor.

7 11.13 Binding Effect. The Plan shall be binding upon and inure to the benefit of
8 the Commission, the Debtor, the Reorganized Debtor, the holders of Claims and Equity Interests,
9 other parties in interest, and their respective successors and assigns.

10 11.14 Notices. All notices, requests and demands to or upon the Debtor, the
11 Commission or the Committee to be effective shall be in writing and, unless otherwise expressly
12 provided herein, shall be deemed to have been duly given or made when actually delivered or, in
13 the case of notice by facsimile transmission, when received and telephonically confirmed,
14 addressed as follows:

15 *If to the Debtor:*

16 Pacific Gas and Electric Company
17 77 Beale Street
18 P.O. Box 7442
19 San Francisco, California 94120
20 Attn: General Counsel
21 Telephone: (415) 973-7000
22 Facsimile: (415) 973-5320

23 *with a copy to:*

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

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and:

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

If to the Commission:

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

with a copy to:

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

If to the Committee:

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

If to the Trustee:

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

11.15 Governing Law. Except to the extent the Bankruptcy Code, Bankruptcy Rules or other federal law is applicable, or to the extent an exhibit to the Plan provides otherwise, the rights and obligations arising under this Plan shall be governed by, and construed

1 and enforced in accordance with, the laws of the State of California, without giving effect to the
2 principles of conflicts of law of such jurisdiction.

3 11.16 Withholding and Reporting Requirements. Except as otherwise provided
4 by the Plan, in connection with the consummation of the Plan, the Debtor shall comply with all
5 applicable withholding and reporting requirements imposed by any federal, state, local or foreign
6 taxing authority and all distributions hereunder shall be subject to any such withholding and
7 reporting requirements.

8 11.17 Commission's Plan Supplement. The following documents will be
9 contained in the Commission's Plan Supplement, which shall be filed with the Clerk of the
10 Bankruptcy Court at least ten (10) days prior to the Confirmation Date:

- 11 (a) New Tax Sharing Agreement; and
- 12 (b) Schedule of Claims Against the State.

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

19 11.18 Exhibits/Schedules. All exhibits and schedules to the Plan, including the
20 Commission's Plan Supplement, are incorporated into and are a part of the Plan as if set forth in
21 full herein.

1 11.19 Subrogation Rights. Nothing in the Plan shall affect (a) the subrogation
2 rights of any surety, to the extent applicable or available, which, if available or applicable, shall
3 remain in full force and effect, or (b) the rights of the Debtor to object, pursuant to the
4 Bankruptcy Code to the existence of such subrogation rights.

5
6 DATED: May __, 2002

7
8 CALIFORNIA PUBLIC UTILITIES
9 COMMISSION

10 By: _____
11 Gary M. Cohen
12 General Counsel

13 APPROVED AS TO CONTENT AND FORM:

14 PAUL, WEISS, RIFKIND, WHARTON
15 & GARRISON

16 By: _____
17 Counsel for the California Public
18 Utilities Commission

PLAN EXHIBIT 1

Interest Rates for Allowed Claims

Contract Type		Class	Interest Rate/Calculation Method ¹	Compounding Interval Before First Payment	Interest Commencement Date	Payment Dates After First Payment
A. Contract²—Other than PC Bonds or First and Refunding Mortgage Bonds						
	Floating Rate Notes ³	5	Per Contract/ Base Interest Rate: 7.583% ⁴	Quarterly	Last Date Interest Paid	Quarterly
	Revolving Line of Credit ³	5	Bank of America Reference Rate/ Base Interest Rate: 8.000%	Quarterly	Last Date Interest Paid	Quarterly
	Medium Term Notes ³	5	Per Contract/Base Interest Rate: See Exhibit D of Disclosure Statement-“Security Description”	Semiannually	Last Date Interest Paid	Quarterly
	Senior Notes ³	5	Per Contract/ Base Interest Rate: 9.625%	Semiannually	Last Date Interest Paid	Quarterly
	DWR	5	Per Contract	N/A	N/A	DWR Claims being offset against amounts due Debtor
	San Joaquin Valley ³	5	Per Contract	Semiannually	Last Date Interest Paid	Quarterly
	L/C Banks ³	4e	Per Contract	Monthly	Last Date Interest Paid	Quarterly
	Prior Bonds ³	4f	Per Contract	Monthly	Last Date Interest Paid	Quarterly
	MBIA Reimbursement ³	4c	Per Contract	To be arranged	To be arranged	Quarterly
	QUIDS ³	11	Per Contract	Quarterly	Last Date Interest Paid	Quarterly
B. Contract²—First and Refunding Mortgage Bonds						
	First and Refunding—	3	Per Contract	Semiannual N/A	Last Date Interest Paid	Per Contract

C. Contract²—PC Bonds						
	Mortgage Backed ^{5,6}	4a	Per Contract	Semiannual N/A	Last Date Interest Paid	Per Contract
	MBIA Backed ⁵	4b	Per Contract	Semiannual N/A	Last Date Interest Paid	Per Contract
	L/C Backed ⁵	4d	Per Contract	Monthly N/A	Last Date Interest Paid	Per Contract
	Treasury ³	4g	Per Contract	Monthly N/A	Last Date Interest Paid	Quarterly
D. Non-Contract²—OCC Contract Specified						
	Commercial Paper ³	5	Qtly floating LIBOR ⁷ Base Interest Rate: 7.466%	Quarterly	Last Date Interest Paid	Quarterly
	ISO/Generator ⁸	6	Qtly. floating LIBOR + 2% ⁹	Annual	To be arranged	Quarterly
	ISDA Claims ⁸	5	Floating LIBOR + 2% ^{8,9}	Annual	Petition Date	Quarterly
E. Non-Contract						
	Priority Tax Claims		Statutory	Statutory	Statutory	Statutory
	ESP ⁸	7	Federal Judgment Rate ¹⁰	Annual	Petition Date	Quarterly
	Intercompany ⁸	5	Federal Judgment Rate ¹⁰	Annual	Petition Date	Quarterly
	Gas Procurement ⁸	5	Federal Judgment Rate ¹⁰	Annual	Petition Date	Quarterly
	Other Trade Payables ⁸	5	Federal Judgment Rate ¹⁰	Annual	Petition Date	Quarterly
	Convenience Class ^{8,11}	10	Federal Judgment Rate ¹⁰	Annual	Petition Date	Quarterly
	Chromium Litigation	9	As applicable under non- bankruptcy law			
	Environmental, Fire Suppression, Tort and FERC License Claims	8	As applicable under non- bankruptcy law			
	Workers' Compensation	12	As applicable under non- bankruptcy law			

¹ See Exhibit D of the Disclosure Statement for specific interest rates on certain instruments.

² "Contract" refers to contractual provisions regarding interest calculations.

³ The first payment will be made ten days after the date that PG&E's Disclosure Statement is approved for the period ended on February 28, 2001.

⁴ Calculated based on actual days elapsed over 360 days, with an implied yield of 7.690%.

⁵ Payments have been made when due in respect of these obligations by the Debtor, MBIA or the Letter of Credit Issuing Banks, as applicable.

⁶ Paid by Bond Trustee with payments on Mortgage Bonds.

⁷ LIBOR determined as if the LIBOR Interest Determination Date had been determined on the basis of an Interest Period commencing on the first day of the period for which interest is accrued.

⁸ The first payment will be made on the later of ten days after that PG&E's Disclosure Statement is approved or July 30, 2002 for the period ended on June 30, 2002.

- ⁹ Determined on the Petition Date and each anniversary prior to the date of first payment and quarterly thereafter.
- ¹⁰ 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 at the Federal Judgment Rate, determined as of the Petition Date as the weekly average one-year constant maturity treasury yield for the calendar week preceding the Petition Date as published by the Board of Governors of the Federal Reserve System. Notwithstanding the foregoing, to the extent any statute, indenture or instrument governing such Allowed Claims provides for the payment of interest, Post-Petition Interest shall be calculated and paid at the lowest non-default rate and in accordance with the terms specified in such statute, indenture or instrument.
- ¹¹ Certain claims of \$5,000 or less will be paid in full on or before July 31, 2002.

PLAN EXHIBIT 2

Schedule of Letter of Credit Issuing Banks

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

PLAN EXHIBIT 3

Description of Debt Instruments

I. New Notes

Issuer	Reorganized Debtor.
Amount	Estimated to aggregate \$3,860,000
Credit Rating	At least BBB- by S&P and Baa3 by Moody's.
Coupon Rate	The coupon rates are expected to reflect market clearing yields for a primary offering for a comparable issue of this maturity size and credit rating, among other factors, at the time of issuance of issuers in the same industry.
Maturity	To be determined.
Amortization	To be determined – the New Notes will either amortize over an average life of not less than _____ years or will provide for principal payment at maturity.
Denominations	\$1,000
Interest Payment Date	Semi-annually.
Ranking	The New Notes will be Unsecured.
Optional Redemption	The New Notes are expected to be redeemable at the option of the issuer at any time in whole or in part, at a price equal to the aggregate of the principal amount to be redeemed, accrued and unpaid interest, and a “make whole premium.” The amount of the “make whole premium” is expected to reflect market conditions at the time of issuance and be determined by negotiation between the issuer and the underwriter(s). The actual calculation in the event redemption is effected is expected to be made by an independent investment banking institution of national standing.

Covenants

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

Events of Default

- Nonpayment of interest when due after thirty (30) days of grace period.
- Nonpayment of principal or premium at maturity.
- Breach of covenant or warranty in the indenture and continuation of such breach for ninety (90) days after notice given to the company.
- Occurrence of event or condition which results in acceleration of a bond, debenture, note or other evidence of money borrowed or the company does not honor its guarantee of any such debt guaranteed by the company in the event of such acceleration with an aggregate outstanding principal amount of more than \$50,000,000, and such indebtedness is not discharged or acceleration is not rescinded within thirty (30) days after notice to the issuing company.
- An involuntary bankruptcy petition is filed against the company and such petition is not dismissed within ninety (90) days of filing or entry of decree or order adjudging the company or any significant subsidiary to be insolvent or appointing a custodian, receiver, etc., which decree or order remains in effect for ninety (90) days.
- Commencing a voluntary case under federal or state bankruptcy or insolvency law or other similar law; making an assignment for the benefit of creditors; admission in writing of inability to pay debts when due.

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.

Amount	<u>Facility</u>	<u>Total Line</u>
	a) Revolver	\$1,885,000,000
	b) Capital Expenditure Sub-Facility	
	c) Letters of Credit	
Sublimits	The sublimit for Letters of Credit will be \$955,000,000. The sublimit for Working Capital will be \$400,000,000 The sublimit for Capital Expenditures will be \$500,000,000.	
Credit Rating	At least BBB- by S&P and Baa3 by Moody's.	
Interest Rate	TBD	
Interest Frequency	TBD	
Default Interest Rate	TBD	
Maturity	<u>Facility</u>	<u>Maturity</u>
	a) Revolver	January 31, 2008
	b) Letters of Credit	January 31, 2008
Ranking	Secured by inventory and receivables.	
Structuring Fee	TBD	
Unused Commitment Fee	TBD	
Excess Cash Flow Sweep	TBD	
Covenants	TBD	
Events of Default	TBD	
Collateral Terms	TBD	

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.

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.

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 does not earn more than a 9.0% return on rate base.

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 operating expenses, which includes cost of energy, O&M and A&G costs, property and other taxes and amortization of RRBs. Operating expenses exclude depreciation expense and other expenses of a non-recurring nature.

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 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 fiscal years 2003, 2004 and 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

	PROJECTED		
	FY 2003	FY 2004	FY 2005
ASSETS			
Cash	\$ 524	\$ 522	\$ 623
Accounts Receivable	1,854	1,860	1,892
Inventory	233	214	217
Prepaid Assets, Other	<u>86</u>	<u>86</u>	<u>86</u>
Current Assets	2,697	2,681	2,818
Net PP&E	14,650	15,203	15,703
Other Non-Current Assets (1)	<u>6,429</u>	<u>6,139</u>	<u>5,849</u>
Total Assets	\$ 23,776	\$ 24,024	\$ 24,370
LIABILITIES			
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	<u>4,041</u>	<u>4,041</u>	<u>4,041</u>
Total Liabilities	8,081	7,776	7,488
INVESTED CAPITAL			
Pre-Petition Claims	-	-	-
Reinstated Debt	3,578	3,268	2,978
Refinanced Debt	281	281	281
Post-Emergence Debt	<u>3,860</u>	<u>3,860</u>	<u>3,860</u>
Total Debt	7,719	7,409	7,119
Reinstated Preferred Equity	430	430	430
Common Equity	<u>7,546</u>	<u>8,409</u>	<u>9,333</u>
Total Equity	7,976	8,839	9,763
Total Invested Capital	<u>15,695</u>	<u>16,248</u>	<u>16,882</u>
Liabilities + Total Invested Capital	\$ 23,776	\$ 24,024	\$ 24,370

Notes:

(1) Includes construction in progress.

PACIFIC GAS AND ELECTRIC COMPANY

FINANCIAL PROJECTIONS

Dollars in \$Millions

	PROJECTED		
	FY	FY	FY
	2003	2004	2005
(1)			
INCOME STATEMENT			
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
Return on Rate Base (3)	9.0%	9.0%	9.0%

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

STATEMENT OF CASH FLOW

	PROJECTED		
	FY 2003	FY 2004	FY 2005
	(1)		
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	1,585	1,908	1,991
- Capital Expenditures	(1,467)	(1,600)	(1,600)
+/- Other Assets	266	290	290
Cash Flow from Investing	(1,201)	(1,310)	(1,310)
+/- Reinstated Debt	(281)	(310)	(290)
+/- Refinanced Debt	281	-	-
+/- Post-Emergence Debt	-	-	-
+/- Reinstated Preferred Equity	-	-	-
- RRB Asset Amortization	(266)	(290)	(290)
+/- Reinstated Obligations	-	-	-
Cash Flow from Financing	(266)	(600)	(580)
Beg Balance, Cash (2)	405	524	522
Net Cash Flow (1)	119	(2)	101
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

<u>Type of Security</u>	<u>Security Description</u>	<u>Class</u>	<u>CUSIP</u>
First and Refunding Mortgage Bond	8.800%	3a	694308 DV6
First and Refunding Mortgage Bond	7.875%	3a	694308 EA1
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

<u>Type of Security</u>	<u>Security Description</u>	<u>Class</u>	<u>CUSIP</u>
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

<u>Type of Security</u>	<u>Security Description</u>	<u>Class</u>	<u>CUSIP</u>
Cumulative Quarterly Income Debentures ¹	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

¹ 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.

<u>Type of Security</u>	<u>Security Description</u>	<u>Class</u>	<u>CUSIP</u>
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

Type of Security	Security Description	Class	CUSIP
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