

FILED

JUL 31 2003

UNITED STATES BANKRUPTCY COURT
SAN FRANCISCO, CA

1 UNITED STATES BANKRUPTCY COURT
2 NORTHERN DISTRICT OF CALIFORNIA
3 SAN FRANCISCO DIVISION

4 In re

Case No. 01 30923 DM

5 PACIFIC GAS AND ELECTRIC COMPANY,
6 a California corporation,

Chapter 11 Case

7 Debtor.

8 Federal I.D. No. 94-0742640

9 DISCLOSURE STATEMENT FOR PLAN OF REORGANIZATION UNDER CHAPTER 11 OF
10 THE BANKRUPTCY CODE FOR PACIFIC GAS AND ELECTRIC COMPANY PROPOSED BY
11 PACIFIC GAS AND ELECTRIC COMPANY, PG&E CORPORATION, AND THE OFFICIAL
12 COMMITTEE OF UNSECURED CREDITORS DATED JULY 31, 2003

13 Counsel for the Debtor, Pacific Gas and
14 Electric Company:

Counsel for PG&E Corporation:

15 HOWARD, RICE, NEMEROVSKI,
16 CANADY, FALK & RABKIN,
17 A Professional Corporation
18 Three Embarcadero Center, 7th Floor
19 San Francisco, California 94111
20 (415) 434-1600

DEWEY BALLANTINE LLP
700 Louisiana, Suite 1900
Houston, Texas 77002
(713) 445-1500

21 COOLEY GODWARD LLP
22 One Maritime Plaza, 20th Floor,
23 San Francisco, California 94111-3580
24 (415) 693-2000

WEIL, GOTSHAL & MANGES LLP
767 Fifth Avenue
New York, New York 10153
(212) 310-8000

ORRICK, HERRINGTON &
SUTCLIFFE LLP
Old Federal Reserve Bank Building
400 Sansome Street
San Francisco, California 94111
(415) 392-1122

Co-Counsel to PG&E Corporation for
Constitutional Law Matters:

25 Professor Laurence Tribe
26 Hauser Hall 420
27 1575 Massachusetts Avenue
28 Cambridge, Massachusetts 02138
(617) 495-4621

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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.	4
B.	THE PLAN OF REORGANIZATION.	5
C.	HOLDERS OF CLAIMS ENTITLED TO VOTE.	6
D.	VOTING PROCEDURES.	8
	1. General.	8
	2. Beneficial Owners of Bonds, Notes or Debentures.	9
	3. Nominees of Beneficial Owners of Bonds, Notes or Debentures.	9
	4. Securities Clearing Agency.	9
E.	CONFIRMATION HEARING.	9
F.	MISCELLANEOUS.	10
II.	OVERVIEW OF CLAIMS AND EQUITY INTERESTS	11
A.	SUMMARY CLAIMS TABLE.	11
B.	CLAIMS OBJECTION PROCESS.	31
III.	DESCRIPTION AND HISTORY OF BUSINESS	32
A.	OVERVIEW.	32
B.	OPERATIONS.	33
	1. Electric Utility Operations.	33
	2. Gas Utility Operations.	34
C.	REGULATION.	34
IV.	EVENTS PRECEDING THE COMMENCEMENT OF THE CHAPTER 11 CASE; FILING OF THE PLAN	35
A.	ELECTRIC INDUSTRY RESTRUCTURING.	35
B.	INCREASING WHOLESALE PRICES, THE RATE FREEZE AND THE FILING OF THE CHAPTER 11 PETITION.	36
C.	PROCUREMENT OF POWER BY THE STATE IN PLACE OF THE DEBTOR.	36
D.	REGULATORY MATTERS	37
	1. FERC Actions Subsequent to Filing of the Chapter 11 Petition.	37
	2. Certain Commission Actions Subsequent to Filing of the Chapter 11 Petition.	39
	3. DWR Revenue Requirement and Servicing Agreement; Resumption of Procurement	40
V.	THE REORGANIZATION CASE	42
A.	COMMENCEMENT OF THE CHAPTER 11 CASE.	42

TABLE OF CONTENTS

	Page
B. ADMINISTRATION OF THE CHAPTER 11 CASE.	42
1. First Day Orders.	42
2. Second Day Orders.	43
3. Third Day Orders.	43
4. Creditors' Committee.	43
5. Public Purpose Programs.	44
6. Assumption of Hydroelectric Power Purchases.	44
7. Request for Preliminary Injunction against the ISO.	44
8. Denial of Ratepayers' Committee, TURN's Motion to Intervene and Government Creditors' Committee.	45
9. Authorization of Employee-Related Matters.	46
10. Transition Period Accounting Proposal.	46
11. Omnibus Motions.	47
12. QF Agreements.	47
13. Claims Management Motions.	48
14. Stipulation with Letter of Credit Issuing Banks and the Banks.	50
15. Motion to Assume Main Line Extension Contracts.	50
16. Stipulation between Palo Alto, NCPA and the Debtor Regarding the Stanislaus Commitments.	50
17. Estimation of Antitrust Claims.	51
18. Settlement and Support Agreement with Senior Debtholders; and Agreement with Letter of Credit Issuing Banks.	52
19. Motion Seeking Authorization to Pay Certain Claims	54
VI. HISTORY OF THE PLAN OF REORGANIZATION	54
VII. SUMMARY OF THE PROPOSED SETTLEMENT AGREEMENT	55
A. REGULATORY ASSET	57
B. RATEMAKING MATTERS	59
C. IMPLEMENTATION OF RATEMAKING	60
D. DIVIDEND PAYMENTS AND STOCK REPURCHASES	60
E. DWR CONTRACTS	60
F. HEADROOM REVENUES	61
G. DISMISSAL OF RATE RECOVERY LITIGATION, AND CERTAIN OTHER LITIGATION AND PROCEEDINGS	61
H. WITHDRAWAL OF APPLICATIONS IN CONNECTION WITH THE ORIGINAL PG&E PLAN	62
I. ENVIRONMENTAL MEASURES	62

TABLE OF CONTENTS

	Page
J. WAIVER OF SOVEREIGN IMMUNITY	63
K. TERM AND ENFORCEABILITY	64
L. TREATMENT OF CREDITORS	64
VIII. LITIGATION	64
A. RATE RECOVERY LITIGATION.	64
B. CALIFORNIA BUSINESS AND PROFESSIONS CODE SECTION 17200 LITIGATION.	67
C. ATTORNEY GENERAL SEC PETITION	69
D. COMPRESSOR STATION CHROMIUM LITIGATION.	70
E. BFM CONTRACT SEIZURE LITIGATION.	73
F. EL PASO SETTLEMENT.	75
G. PENDING EXPRESS PREEMPTION APPEAL.	78
IX. THE PLAN OF REORGANIZATION	79
A. CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS.	79
1. Administrative Expense Claims.	82
2. Professional Compensation and Reimbursement Claims.	83
3. Priority Tax Claims.	83
4. Ordinary Course Liabilities.	84
5. Class 1—Other Priority Claims.	85
6. Class 2—Other Secured Claims.	85
7. Class 3a—Secured Claims Relating to First and Refunding Mortgage Bonds.	86
8. Class 3b—Secured Claims Relating to PC-Related Mortgage Bonds.	87
9. Class 4a—Mortgage Backed PC Bond Claims.	88
10. Class 4b—MBIA Insured PC Bond Claims.	89
11. Class 4c—MBIA Claims.	90
12. Class 4d—Letter of Credit Backed PC Bond Claims.	91
13. Class 4e—Letter of Credit Bank Claims.	92
14. Class 4f—Prior Bond Claims.	98
15. Class 4g—Treasury PC Bond Claims.	100
16. Class 5—General Unsecured Claims.	100
17. Class 6—ISO, PX and Generator Claims.	101
18. Class 7—ESP Claims.	103

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

19.	Class 8—Environmental, Fire Suppression, Pending Litigation and Tort Claims.	104
20.	Class 9—QUIDS Claims.	107
21.	Class 10—Workers’ Compensation Claims.	107
22.	Class 11—Preferred Stock Equity Interests.	107
23.	Class 12—Common Stock Equity Interests.	108
B.	FINANCING OF THE PLAN; WORKING CAPITAL FACILITIES; SECURITIES ISSUED UNDER THE PLAN.	108
1.	Equity Securities.	109
2.	New Money Notes.	109
3.	Credit Facilities.	110
4.	Hedging.	110
5.	New Mortgage Bonds.	111
C.	METHOD OF DISTRIBUTION UNDER THE PLAN.	111
D.	TIMING OF DISTRIBUTIONS UNDER THE PLAN.	113
E.	TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES.	113
F.	PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS.	118
G.	CONDITIONS PRECEDENT TO CONFIRMATION OF THE PLAN.	120
H.	CONDITIONS PRECEDENT TO EFFECTIVENESS OF THE PLAN.	121
I.	IMPLEMENTATION AND EFFECT OF CONFIRMATION OF THE PLAN.	123
J.	DISCHARGE AND INJUNCTION.	123
K.	VOTING.	124
1.	Voting of Claims.	124
2.	Elimination of Vacant Classes.	125
3.	Nonconsensual Confirmation.	125
L.	SUMMARY OF OTHER PROVISIONS OF THE PLAN.	126
1.	Amendment or Modification of the Plan.	126
2.	Cancellation of Existing Securities and Agreements.	128
3.	Termination of Committee.	128
4.	Effectuating Documents and Further Transactions.	128
5.	Corporate Governance.	129
6.	Execution of Proposed Settlement Agreement.	129
7.	Exculpation.	129

TABLE OF CONTENTS

		Page
1		
2		
3	8. Releases.	130
4	9. Plan Supplement.	132
5	10. Retention of Jurisdiction.	133
6	11. Exemption from Transfer Taxes.	134
7	12. Fees and Expenses.	134
8	13. Payment of Statutory Fees.	135
9	14. Binding Effect.	135
10	15. Governing Law.	136
11	16. Withholding and Reporting Requirements.	136
12	17. Allocation of Plan Distributions.	136
13	18. Preservation of Certain Claims.	136
14	19. Subrogation Rights.	136
15	X. CONFIRMATION AND CONSUMMATION PROCEDURE	137
16	A. SOLICITATION OF VOTES.	137
17	B. THE CONFIRMATION HEARING.	138
18	C. CONFIRMATION.	139
19	1. Acceptance.	140
20	2. Unfair Discrimination and Fair and Equitable Tests.	140
21	3. Feasibility.	141
22	4. Best Interests Test.	142
23	D. CONSUMMATION.	144
24	XI. FINANCIAL INFORMATION	145
25	XII. SECURITIES LAWS MATTERS	145
26	XIII. CERTAIN RISK FACTORS TO BE CONSIDERED	146
27	1. Inability to Obtain Commission Approval of the Proposed Settlement Agreement.	146
28	2. Risk of Non-Confirmation of the Plan.	147
	3. Non-Consensual Confirmation.	147
	4. Risk of Delay or Non-Occurrence of the Effective Date.	147
	5. Risks Relating to the Issuance of New Debt Securities.	148
	6. Effect of California Supreme Court Ruling	148
	7. Risks Relating to the Business of the Reorganized Debtor After the Effective Date	150
	8. Risks Related to NEG	150
	XIV. DESCRIPTION OF CERTAIN CLAIMS	151

TABLE OF CONTENTS

	Page
A. POLLUTION CONTROL BONDS.	151
1. General.	151
2. Mortgage Backed PC Bonds.	154
3. Letter of Credit Backed PC Bonds.	155
4. MBIA Insured PC Bonds.	156
5. Prior Bonds.	157
6. Treasury PC Bonds.	159
XV. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN	159
A. INTRODUCTION	159
B. CONSEQUENCES TO THE DEBTOR -- TREATMENT OF ESCROW(S)	160
C. CONSEQUENCES TO HOLDERS OF ALLOWED GENERAL UNSECURED CLAIMS, ALLOWED ISO, PX AND GENERATOR CLAIMS AND ALLOWED ESP CLAIMS	161
D. CONSEQUENCES TO HOLDERS OF SECURED CLAIMS RELATING TO FIRST AND REFUNDING MORTGAGE BONDS	162
E. CONSEQUENCES TO HOLDERS OF CERTAIN PC BOND CLAIMS	163
F. INFORMATION REPORTING AND WITHHOLDING	164
A. LIQUIDATION UNDER CHAPTER 7.	164
B. ALTERNATIVE PLAN OF REORGANIZATION.	165
C. LIQUIDATION UNDER CHAPTER 11.	165
XVII. CONCLUSION AND RECOMMENDATION.	166

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

I. INTRODUCTION

Pacific Gas and Electric Company (the “Debtor”) and PG&E Corporation (the “Parent”) submit this Disclosure Statement for Plan of Reorganization for Pacific Gas and Electric Company (the “Disclosure Statement”), under section 1125 of title 11 of the United States Code (the “Bankruptcy Code”) to holders of Claims against and Equity Interests in the Debtor in connection with (i) the solicitation of acceptances of the Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company, dated July 31, 2003 (the “Plan”), filed by the Debtor, the Parent and the Official Committee of Unsecured Creditors (the “Committee”) as co-proponents (collectively, the “Proponents”) with the United States Bankruptcy Court for the Northern District of California (the “Bankruptcy Court”), and (ii) the hearing to consider confirmation of the Plan (the “Confirmation Hearing”) scheduled on November 3, 2003.

The Plan is a joint plan proposed by the Proponents. It reflects the terms of a proposed settlement agreement (the “Proposed Settlement Agreement”) between the Debtor, the Parent and the California Public Utilities Commission (the “Commission”).

Prior to the filing of the Plan, the Debtor and the Parent filed a Plan of Reorganization under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company, dated April 19, 2002 (as modified by various modifications, the “Original PG&E Plan”). On May 17, 2002, the Commission filed a competing plan of reorganization for the Debtor and, subsequently, the Committee joined with the Commission to file an amended plan of reorganization. On December 5, 2002, the Commission and the Committee filed their Third Amended Plan of Reorganization under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company (the “Commission Plan”). On November 18, 2002, the Bankruptcy Court commenced a hearing on confirmation of the competing plans. During the confirmation hearing on the Original PG&E Plan, the Bankruptcy Court, on March 4, 2003, entered an order mandating a judicial settlement conference and, on March 11, 2003, entered an order staying all proceedings with respect to confirmation of the competing plans to facilitate the mandatory settlement process. The stay was continued from time to time. Following that process, the Proposed Settlement Agreement was reached, the terms of which

1 are incorporated by reference into the Plan and the stay has been continued indefinitely pending
2 further order of the Bankruptcy Court.

3 The Proposed Settlement Agreement provides for the Debtor and the Commission to
4 jointly support a proposed new plan of reorganization that embodies the terms and conditions
5 contained in the Proposed Settlement Agreement. Pursuant to the Proposed Settlement Agreement,
6 among other things, the Debtor would agree to no longer propose to seek to disaggregate its historic
7 businesses, and the Commission would establish a \$2.21 billion “regulatory asset” to be amortized
8 over nine (9) years in the Debtor’s retail electric rates and to approve other provisions that will
9 restore the Debtor to financial health and maintain and improve the Debtor’s financial condition in
10 the future so that the Debtor is able to provide safe and reliable electric and gas service to its
11 customers at just and reasonable rates. See Section VII of this Disclosure Statement for a more
12 detailed description of the Proposed Settlement Agreement.

13 Attached as Exhibits to this Disclosure Statement are copies of the following
14 documents:

- 15 • The Plan and all Exhibits thereto, including the Proposed Settlement Agreement¹
16 (Exhibit A);
- 17 • Order of the Bankruptcy Court entered on July 31, 2003 (the “Disclosure Statement
18 Order”) approving this Disclosure Statement (Exhibit B);
- 19 • Projected Financial Information (Exhibit C);
- 20 • Schedule of Currently Outstanding Securities of the Debtor (Exhibit D);

21 In addition, the Debtor and the Parent have filed the following documents, which are
22 incorporated herein by reference, with the United States Securities and Exchange Commission (the
23 “SEC”):

- 24 • Annual Report on Form 10-K/A Amendment No. 1, as amended by Form 10-K/A
25 Amendment No. 2 and Amendment No. 3, of the Parent and the Debtor for the year
26 ended December 31, 2002;
- 27 • Quarterly Report on Form 10-Q of the Parent and the Debtor for the quarter ended
28 March 31, 2003; and

¹The term “Plan” as used herein includes all Exhibits to the Plan.

- Various Current Reports on Form 8-K of the Parent and the Debtor.

Such documents and other information are available at a website maintained by the SEC at <http://www.sec.gov> that contains reports, proxy and information statements and other information filed electronically with the SEC. The information included in this Disclosure Statement has been provided by the Debtor and the Parent and is derived from their books and records, public filings and various third-party sources.

A Ballot for the acceptance or rejection of the Plan is enclosed with the Disclosure Statement submitted to holders of Claims entitled to vote to accept or reject the Plan. All Equity Interests in the Debtor are unimpaired by the Plan, and therefore are deemed to have accepted the Plan, and holders of Equity Interests will not receive a Ballot.

On July 31, 2003, after notice and a hearing, the Bankruptcy Court entered the Disclosure Statement Order approving this Disclosure Statement as containing adequate information of a kind and in sufficient detail to enable hypothetical reasonable investors typical of the holders of Claims against and Equity Interests in the Debtor to make an informed judgment in voting to accept or reject the Plan. APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

The Ballot sets forth the deadlines, procedures and instructions for voting to accept or reject the Plan. In addition, detailed voting instructions accompany each Ballot. Before voting, each holder of a Claim entitled to vote should read this Disclosure Statement (including the exhibits and documents incorporated herein by reference), the Plan and the instructions accompanying the Ballot. These documents contain, among other things, important information concerning the classification of Claims and Equity Interests for voting purposes and the tabulation of votes. No solicitation of votes on the Plan may be made except pursuant to this Disclosure Statement and section 1125 of the Bankruptcy Code. In considering how to vote on the Plan, a holder of a Claim should not rely on any information relating to the Debtor and its business other than that contained, or incorporated by reference, in this Disclosure Statement, the Plan or as otherwise approved by the

1 Bankruptcy Court.

2 For the reasons discussed herein, **THE PROPONENTS URGE ALL CREDITORS**
3 **IN VOTING CLASSES TO VOTE TO ACCEPT THE PLAN.** Creditors are urged to read the
4 Disclosure Statement in its entirety prior to voting on the Plan.

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

10 **A. CHAPTER 11.**

11 Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code.
12 The commencement of a chapter 11 case creates an estate that is comprised of all of the legal and
13 equitable interests of the debtor as of the date of filing of the bankruptcy petition. The Bankruptcy
14 Code provides that the chapter 11 debtor may continue to operate its business and remain in
15 possession of its property as a “debtor-in-possession.” Under chapter 11, a debtor is authorized to
16 reorganize its business for the benefit of itself, its creditors and its equity interest holders. In
17 addition to permitting the rehabilitation of a debtor, another goal of chapter 11 is to promote equality
18 of treatment for similarly situated creditors and similarly situated equity interest holders with respect
19 to the distribution of a debtor’s assets.

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

27 Certain holders of allowed claims against and equity interests in a debtor are permitted
28 to vote to accept or reject the plan. Prior to soliciting acceptances of a proposed plan, however,

1 section 1125 of the Bankruptcy Code requires approval by the bankruptcy court of a disclosure
2 statement containing adequate information of a kind and in sufficient detail to enable a hypothetical
3 reasonable investor to make an informed judgment regarding the plan.

4 **B. THE PLAN OF REORGANIZATION.**

5 Prior to the summer of 2000, the Debtor was one of the healthiest energy utilities in the
6 United States, enjoying investment-grade credit ratings and consistently paying dividends to its
7 shareholders. As a regulated public utility, the Debtor operated under the historical (and
8 constitutionally-required) “regulatory compact.” Under that compact, the Debtor undertook to serve
9 all the electric and gas customers in its service territory in exchange for rates that allowed it to cover
10 its costs of providing service, to recover its investment in facilities serving the public and the
11 opportunity to earn a reasonable rate of return.

12 Beginning in May 2000, prices for power purchased on the wholesale market began to
13 increase. For the seven-month period from June 2000 through December 2000, wholesale electric
14 prices in California averaged \$0.18 per kilowatt-hour (“kWh”). During this period, the Debtor’s
15 retail electric rates were frozen and provided only approximately \$0.05 per kWh, which was
16 insufficient to pay for the Debtor’s electricity procurement and other costs. The Debtor’s inability to
17 recover approximately \$8.9 billion in such costs from its customers ultimately resulted in billions of
18 dollars of defaulted debt and unpaid bills. By April 6, 2001 (the “Petition Date”), all of the major
19 credit rating agencies had downgraded the Debtor to uncreditworthy ratings, which precluded the
20 Debtor from purchasing power in the wholesale markets under federally-approved tariffs. As a
21 result, the Debtor turned to the Bankruptcy Court for relief. For a more detailed description of the
22 events leading to the commencement of the Chapter 11 Case and the filing of the Plan, see
23 Section IV of this Disclosure Statement.

24 The Proponents have developed a Plan designed to reaffirm the Debtor’s financial
25 viability and provide for the payment in full of all Allowed Claims, plus Post-Petition Interest. See
26 Sections II and IX.A of this Disclosure Statement for detailed information regarding the payment of
27 Allowed Claims. The purpose of the Plan is to pay all Allowed Claims in full, and enable the
28 Debtor to emerge from the Chapter 11 Case with a strong and sustainable business. The Plan will

1 also assure that the Reorganized Debtor will be financially sound going forward, thus providing the
2 necessary assurance that it will be able to service the debt issued in connection with or reinstated
3 under the Plan, and provide safe and reliable service to its customers. See Section IX of this
4 Disclosure Statement for a more detailed description of the Plan.

5 The Proponents believe that the Plan is workable, fair and in the public interest. The
6 Plan provides for the Debtor to continue to operate its business under Commission and State
7 regulation, and in a manner consistent with sound business and environmental policies, and to
8 provide a safe, reliable and long-term energy supply to the Debtor's electric and gas customers in
9 Central and Northern California.

10 The Proponents believe that the Plan will enable the Debtor to successfully reorganize
11 its business and accomplish the objectives of chapter 11, and that acceptance of the Plan is in the
12 best interests of the Debtor, its creditors and all parties in interest.

13 **C. HOLDERS OF CLAIMS ENTITLED TO VOTE.**

14 The Bankruptcy Code provides that only holders of allowed claims or equity interests in
15 classes of claims or equity interests that are impaired and are not deemed to have rejected a
16 proposed chapter 11 plan are entitled to vote to accept or reject such plan. Classes of claims or
17 equity interests in which the holders are unimpaired under a chapter 11 plan are deemed to have
18 accepted the plan and are not entitled to vote to accept or reject the plan. Classes of claims or equity
19 interests in which the holders will receive no recovery under a chapter 11 plan are impaired, but are
20 deemed to have rejected the plan and are also not entitled to vote to accept or reject the plan. See
21 Section IX.A of this Disclosure Statement for a detailed description of the treatment of Claims and
22 Equity Interests under the Plan.

23 The following classes of Claims are impaired, will receive distributions under the Plan
24 and are entitled to vote to accept or reject the Plan: Class 3a—Secured Claims Relating to First and
25 Refunding Mortgage Bonds, Class 3b—Secured Claims Relating to PC-Related Mortgage Bonds,
26 Class 4a—Mortgage Backed PC Bond Claims, Class 4c—MBIA Claims, Class 4e—Letter of Credit
27 Bank Claims, and Class 5—General Unsecured Claims.

28 The following classes of Claims and Equity Interests are unimpaired and, therefore, are

1 conclusively presumed to have accepted the Plan: Class 1—Other Priority Claims, Class 2—Other
2 Secured Claims, Class 4b—MBIA Insured PC Bond Claims, Class 4d—Letter of Credit Backed PC
3 Bond Claims, Class 4f—Prior Bond Claims, Class 4g—Treasury PC Bond Claims, Class 6—ISO,
4 PX and Generator Claims, Class 7—ESP Claims,² Class 8—Environmental, Fire Suppression,
5 Pending Litigation and Tort Claims, Class 9—QUIDS Claims, Class 10—Workers’ Compensation
6 Claims, Class 11—Preferred Stock Equity Interests, and Class 12—Common Stock Equity Interests.

7 There is no class of Claims or Equity Interests that will receive no recovery under the
8 Plan. Accordingly, none of the classes of Claims or Equity Interests is deemed to have rejected the
9 Plan.

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

17 If one or more classes of Claims entitled to vote on the Plan rejects the Plan, the
18 Proponents reserve the right to amend the Plan or request confirmation of the Plan pursuant to
19 section 1129(b) of the Bankruptcy Code. If at least one class of Claims that is impaired under the
20 Plan has accepted the Plan (determined without including acceptance of the Plan by any insider),
21 section 1129(b) permits confirmation of the Plan notwithstanding its rejection by one or more
22 impaired classes of Claims. Under that section, the Plan may be confirmed by the Bankruptcy Court
23 if it does not “discriminate unfairly” and is “fair and equitable” with respect to each nonaccepting
24 impaired class of Claims. See Section X.C.2 of this Disclosure Statement for a more detailed
25 description of the requirements for confirmation of a plan not accepted by all voting classes.

26
27 ²See discussion in Sections IX.A.17 and IX.A.18 of this Disclosure Statement regarding the
28 classification and voting rights of Classes 6 and 7.

1 **D. VOTING PROCEDURES.**

2 **1. General.**

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

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

11 TO BE COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR
12 REJECTION OF THE PLAN MUST BE RECEIVED NO LATER THAN 5:00 P.M., EASTERN
13 TIME, ON SEPTEMBER 29, 2003 (THE "VOTING DEADLINE"). ANY EXECUTED BALLOT
14 THAT FAILS TO INDICATE AN ACCEPTANCE OR REJECTION OF THE PLAN WILL NOT
15 BE COUNTED.

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

18 The Voting Agent is:

19 Innisfree M&A Incorporated
20 501 Madison Avenue, 20th Floor
21 New York, New York 10022
22 Phone: (877) 750-9501 (toll-free)
23 Banks and brokers call: (212) 750-5833

24 The Bankruptcy Court has set August 4, 2003 as the Voting Record Date. Accordingly,
25 only holders of record of Claims as of the Voting Record Date who otherwise are entitled to vote
26 under the Plan will receive a Ballot.

27 If you are a holder of a Claim entitled to vote and did not receive a Ballot, received a
28 damaged Ballot or lost your Ballot, or if you have any questions concerning the procedures for
voting on the Plan, please contact the Voting Agent at (877) 750-9501.

 Please note the following special instructions for holders of certain Claims.

1 2. **Beneficial Owners of Bonds, Notes or Debentures.**

2 If you are the beneficial owner of bonds, notes or debentures of the Debtor as of the
3 Voting Record Date, and such bonds, notes or debentures are registered in your name, please
4 complete the information requested on the Ballot; sign, date and indicate your vote; and return the
5 Ballot to the Voting Agent in the enclosed return envelope or at the address set forth above on or
6 prior to the Voting Deadline.

7 If you are the beneficial owner of bonds, notes or debentures of the Debtor as of the
8 Voting Record Date, such bonds, notes or debentures are registered in “street name,” AND YOUR
9 BALLOT HAS BEEN PREVALIDATED BY YOUR NOMINEE, please complete the information
10 requested on the Ballot; sign, date and indicate your vote; and return the Ballot to the Voting Agent
11 in the enclosed return envelope or at the address set forth above on or prior to the Voting Deadline.

12 If you are the beneficial owner of bonds, notes or debentures of the Debtor as of the
13 Voting Record Date, such bonds, notes or debentures are registered in “street name,” AND YOUR
14 BALLOT HAS NOT BEEN PREVALIDATED BY YOUR NOMINEE, please sign, date and
15 indicate your vote, and return your Ballot to your Nominee prior to the Voting Deadline.

16 3. **Nominees of Beneficial Owners of Bonds, Notes or Debentures.**

17 If you are the Nominee for a beneficial owner of bonds, notes or debentures of the
18 Debtor as of the Voting Record Date, please forward a copy of this Disclosure Statement and the
19 appropriate Ballot to each beneficial owner. If you do not prevalidate the Ballots, the Ballots must
20 be collected by you so that you can deliver them to the Voting Agent on a Master Ballot within two
21 (2) days of the Voting Deadline as detailed in the Master Ballot.

22 4. **Securities Clearing Agency.**

23 If you are a securities clearing agency, please arrange for your participants to vote on the
24 Plan by executing an omnibus proxy in their favor.

25 E. **CONFIRMATION HEARING.**

26 Pursuant to section 1128 of the Bankruptcy Code and the Bankruptcy Court’s Discovery
27 Protocol and Trial Scheduling Order of the PG&E/OCC Plan of Reorganization, the Confirmation
28 Hearing to consider confirmation of the Plan will be held on November 3, 2003, commencing at

1 9:30 a.m., Pacific Time, before the Honorable Dennis Montali, United States Bankruptcy Judge, at
2 the United States Bankruptcy Court for the Northern District of California, 235 Pine Street, San
3 Francisco, California 94014, or such other location as the Bankruptcy Court directs. The
4 Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be served and filed
5 so that they are received no later than September 2, 2003, at 4:00 p.m., Pacific Time, in the manner
6 described below in Section X.B of this Disclosure Statement. The Confirmation Hearing may be
7 continued from time to time by the Bankruptcy Court without further notice except for
8 announcement of the continuation date made at the Confirmation Hearing.

9 **F. MISCELLANEOUS.**

10 THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE
11 MADE AS OF THE DATE HEREOF UNLESS ANOTHER DATE IS SPECIFIED HEREIN. THE
12 DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT CREATE AN IMPLICATION
13 THAT THE INFORMATION CONTAINED HEREIN HAS NOT CHANGED AFTER THE DATE
14 HEREOF. HOLDERS OF CLAIMS ENTITLED TO VOTE ON THE PLAN SHOULD
15 CAREFULLY READ THIS DISCLOSURE STATEMENT (INCLUDING THE DOCUMENTS
16 INCORPORATED HEREIN BY REFERENCE) IN ITS ENTIRETY, INCLUDING THE PLAN
17 AND THE OTHER EXHIBITS, PRIOR TO VOTING ON THE PLAN.

18 FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND EQUITY
19 INTERESTS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN.
20 IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THIS DISCLOSURE
21 STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING. THIS DISCLOSURE
22 STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO
23 DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, AND NOTHING
24 STATED HEREIN SHALL BE DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR OTHER
25 LEGAL EFFECTS OF THE PLAN ON THE PROPONENTS OR HOLDERS OF CLAIMS OR
26 EQUITY INTERESTS. CERTAIN OF THE STATEMENTS CONTAINED IN THIS
27 DISCLOSURE STATEMENT (INCLUDING THE DOCUMENTS INCORPORATED HEREIN
28 BY REFERENCE), TOGETHER WITH THE PROJECTED FINANCIAL INFORMATION

1 ANNEXED HERETO AS EXHIBIT C AND THE ASSUMPTIONS UNDERLYING SUCH
2 PROJECTED FINANCIAL INFORMATION, BY NATURE, ARE FORWARD-LOOKING AND
3 SUBJECT TO THE VARIOUS RISKS AND UNCERTAINTIES DESCRIBED IN SECTION XIII.
4 OF THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS INCORPORATED HEREIN
5 BY REFERENCE). ACTUAL OUTCOMES MAY DIFFER MATERIALLY FROM THOSE
6 EXPRESSED, IMPLIED OR ASSUMED FROM SUCH FORWARD-LOOKING STATEMENTS.
7 ALL HOLDERS OF CLAIMS AND EQUITY INTERESTS SHOULD CAREFULLY READ AND
8 CONSIDER FULLY THE RISK FACTORS SET FORTH IN SECTION XIII OF THIS
9 DISCLOSURE STATEMENT (AND THE DOCUMENTS INCORPORATED HEREIN BY
10 REFERENCE).

11 SUMMARIES OF CERTAIN PROVISIONS OF AGREEMENTS REFERRED TO IN
12 THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE COMPLETE AND ARE
13 SUBJECT TO, AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO, THE FULL
14 TEXT AND TO ALL OF THE PROVISIONS OF THE APPLICABLE AGREEMENT,
15 INCLUDING THE DEFINITIONS OF TERMS CONTAINED IN SUCH AGREEMENT.

16 **II. OVERVIEW OF CLAIMS AND EQUITY INTERESTS**

17 **A. SUMMARY CLAIMS TABLE.**

18 The following table briefly summarizes the classification and treatment of Claims³ and
19 Equity Interests under the Plan. While approximately \$50 billion of Claims have been filed with the
20 Bankruptcy Court in connection with this Chapter 11 Case, the Proponents believe that the estimated
21 amounts set forth in the following table represent the most reasonable estimates of the ultimate
22 Allowed Claims. See Section IX.A. of this Disclosure Statement for a more detailed discussion of
23 the treatment of Claims and Equity Interests under the Plan. See Section XIV.A of this Disclosure
24 Statement for a detailed description of the PC Bond obligations and the defined terms used in the
25

26 ³As defined in the Plan, “Claim” has the meaning set forth in section 101(5) of the Bankruptcy
27 Code; provided, however, that any claim based on allocations under Commission Electric Rule 20,
28 Section A, relating to undergrounding of electric distribution facilities, shall not be a Claim for
purposes of the Plan and shall pass through the Plan unaffected.

1 discussion of Class 4. A schedule of the Debtor's currently outstanding securities is attached hereto
2 as Exhibit D.

3 The Debtor will pay all Allowed Claims in full. Allowed Claims shall include the
4 amounts owed with respect to the period prior to the Petition Date and applicable interest accrued
5 and unpaid during such period. Except as otherwise provided herein, holders of Allowed Claims
6 will also be paid in Cash accrued and unpaid interest due on such Allowed Claims from the Petition
7 Date through the Effective Date ("Post-Petition Interest"). Except as otherwise provided herein,
8 including Exhibit B to the Plan, any Post-Petition Interest shall be calculated and paid on the
9 Allowed Claim at the lowest non-default rate in accordance with the terms specified in the
10 applicable statute, indenture or instrument governing such Allowed Claim or, if no such instrument
11 exists or the applicable instrument does not specify a non-default rate of interest, Post-Petition
12 Interest will be calculated and paid on the Allowed Claim at the Federal Judgment Rate. Except as
13 provided under applicable non-bankruptcy law, or pursuant to certain agreements with the Debtor
14 approved by the Bankruptcy Court, Post-Petition Interest will not be paid on the following Allowed
15 Claims: Administrative Expense Claims, Environmental, Fire Suppression, Pending Litigation and
16 Tort Claims, and Workers' Compensation Claims.

17 Except as set forth above and except to the extent a holder of an Allowed Claim or
18 Equity Interest has otherwise been paid all or a portion of such holder's Allowed Claim or Equity
19 Interest prior to the Effective Date, each of the distributions specified in Article IV of the Plan with
20 respect to each Allowed Claim or Equity Interest shall (i) occur on the later of the Effective Date
21 and the date such Allowed Claim or Equity Interest becomes an Allowed Claim or Equity Interest,
22 or as soon as practicable thereafter, and (ii) be in full and complete settlement, satisfaction and
23 discharge of such Allowed Claim or Equity Interest.

24 As to any Disputed Claim not resolved by the Effective Date, within ten (10) days after
25 a Final Order or the filing of a stipulation making such Disputed Claim an Allowed Claim, the
26 holder of such Allowed Claim shall receive all Pre-Petition Interest on such Allowed Claim (if any)
27 and, to the extent payable, Post-Petition Interest accrued and payable on such Allowed Claim
28 pursuant to the Plan as of such date. See Section IX.D of this Disclosure Statement for more

1 information regarding the timing of distributions under the Plan.

2 The Debtor is authorized to pay, and has paid or will pay, all fees and expenses of the
3 holders of Senior Indebtedness who are parties to the Settlement and Support Agreement, the Bond
4 Trustees, the trustees under the Mortgage, and Debtor's various indentures, including but not limited
5 to, the trustee under the Southern San Joaquin Valley Power Authority Agreement, the Issuer of the
6 PC Bonds, and their respective professionals, and Bank of America, N.A., in its capacity as
7 administrative agent under the Revolving Line of Credit (including such administrative agent's
8 attorneys' fees), pursuant to a procedure that provides for twenty (20) days' notice to the Debtor, its
9 counsel, counsel to the Committee and the U.S. Trustee, which parties thereby are afforded an
10 opportunity to object to the reasonableness of such fees and expenses. Any other unpaid fees and
11 expenses accrued through the Confirmation Date of any of the Bond Trustees and trustees under the
12 Mortgage and various indentures shall be paid by the Debtor within ten (10) days after the
13 Confirmation Date, to the extent allowed by law and any underlying agreement.

14 HOWARD
15 RICE
16 NEMEROVSKI
17 CANADY
18 FALK
19 & RABKIN
20 A Professional Corporation

<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.	\$57
—	Professional Compensation and Reimbursement Claims	Paid in full in Cash.	\$150 ⁴
—	Priority Tax Claims	Paid in full in Cash.	\$46
1	Other Priority Claims	Unimpaired—Paid in full in Cash.	Nominal
2	Other Secured	Unimpaired—Paid in full in Cash.	Nominal

25 ⁴This amount is comprised of \$108 million in professional fees and expenses approved as of
26 March 31, 2003, plus an estimated additional amount of \$42 million to be incurred through the end
27 of 2003. This amount does not include an estimated \$125 million in professional fees and costs of
28 the Parent and an estimated \$26 million in professional fees and costs of the Commission, which the
Debtor has agreed to reimburse. See Section IX.L.12. of this Disclosure Statement for discussion of
the fees and costs of the Parent and the Commission.

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
	Claims		
3a	Secured Claims Relating to First and Refunding Mortgage Bonds	Impaired—Paid in full in Cash. Allowed Secured Claims Relating to First and Refunding Mortgage Bonds will include prepayment penalties or premiums as follows: (i) with respect to the following series of First and Refunding Mortgage Bonds, a prepayment premium payable in cash upon the Effective Date as follows: a 1.0000% premium with respect to the 8.800% First and Refunding Mortgage Bonds Series 91A due May 1, 2024, a 0.1000% premium with respect to the 5.875% First and Refunding Mortgage Bonds Series 93E due October 1, 2005, a 0.0250% premium with respect to the 6.25% First and Refunding Mortgage Bonds Series 93G due March 1, 2004 and a 1.0000% premium with respect to the 7.05% First and Refunding Mortgage Bonds Series 93H due March 1, 2024; (ii) with respect to all other series of redeemable First and Refunding Mortgage Bonds as to which the redemption period commences prior to the Effective Date, any prepayment premium provided under the First and Refunding Mortgage Bonds that applies to prepayment of such First and	\$2,653 ⁵

⁵ Approximately \$234 million of such amount is held by the Debtor in treasury as of the date hereof. All or any portion of such bonds owned by the Debtor that remain outstanding may be cancelled on or reasonably promptly prior to the Effective Date, pursuant to the treatment of such treasury bonds specified in Section 4.5(b) of the Plan. Prior to the Effective Date, the Debtor shall not sell any such treasury bonds, provided that the Debtor may use any portion of such treasury bonds (and effect the cancellation thereof) for the purpose of meeting its sinking fund or similar obligations under the Mortgage. The \$2.653 million amount does not include approximately \$280,514,000 in principal amount of Series 93 C bonds maturing on August 1, 2003 (the “1993 Series C Bonds”) that, but for such maturity date, otherwise would be within the definition of First and Refunding Mortgage Bonds that constitute Class 3a under the Plan. On June 20, 2003, the Debtor filed a motion with the Bankruptcy Court to permit timely payment of the approximately \$280,514,000 principal amount of the 1993 Series C Bonds on August 1, 2003, and the Bankruptcy Court issued its order approving such motion on July 21, 2003. Accordingly, based on such order, the Debtor intends to pay off the 1993 Series C Bonds on or about August 1, 2003, well before the confirmation hearing on the Plan, and the 1993 Series C Bonds therefore are not included in the definition of First and Refunding Mortgage Bonds and are not part of Class 3a under the Plan. If for any reason the 1993 Series C Bonds are not timely paid off notwithstanding the approval of such motion, the Plan will be modified to add the 1993 Series C Bonds to the definition of First and Refunding Mortgage Bonds that constitute Class 3a under the Plan.

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

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	
		Refunding Mortgage Bonds on or prior to the Effective Date, which shall be payable in Cash; and (iii) with respect to all other series of redeemable First and Refunding Mortgage Bonds as to which the redemption period commences subsequent to the Effective Date, a prepayment premium equal to the premium that would apply at the commencement of such redemption period, shall be payable in Cash; <u>provided, however</u> , that Allowed Secured Claims Relating to First and Refunding Mortgage Bonds shall not include any other prepayment premium or penalties associated with the repayment of First and Refunding Mortgage Bonds; and <u>provided further</u> , that no prepayment premium will be paid on any series of First and Refunding Mortgage Bonds that matures in accordance with its terms prior to the Effective Date if the Allowed Secured Claims on such series of First and Refunding Mortgage Bonds are paid on or about the maturity date thereof.	

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
3b	Secured Claims Relating to PC-Related Mortgage Bonds	<p>Impaired—(i) If none of the New Money Notes are secured on the Effective Date, then each series of PC-Related Mortgage Bonds shall be replaced with New Mortgage Bonds. In such event, each holder of a PC-Related Mortgage Bond shall be paid an amount in Cash equal to any and all accrued and unpaid interest owed to such holder in respect of such PC-Related Mortgage Bond in accordance with the terms thereof to and including the last scheduled interest payment date preceding the Effective Date.</p> <p>(ii) If any of the New Money Notes are secured on the Effective Date, then with respect to each series of PC-Related Mortgage Bonds securing a series of Mortgage Backed PC Bonds redeemed in accordance with Section 4.7(b)(ii) of the Plan, each holder of an Allowed Secured Claim relating to such series of PC-Related Mortgage Bonds shall be paid in Cash in an amount equal to such Allowed Claim.</p>	\$— ⁶
4a	Mortgage Backed PC Bond Claims	<p>Impaired—(i) If none of the New Money Notes are secured on the Effective Date, then each series of Mortgage Backed PC Bonds, and each of the PC Bond Documents relating thereto, will be renewed and remain outstanding. To the extent such payments are not made or provided for by the payment of Class 3b Claims to or for the benefit of the Bond Trustee, each holder of a Mortgage Backed PC Bond will be paid Cash in an amount equal to any and all accrued and</p>	\$345

⁶With respect to each series of Mortgage Backed PC Bonds, in order to secure and provide for the repayment of the respective Bond Loan, the Debtor issued and delivered to the Bond Trustee its Mortgage Bonds, of like principal amount, maturity, interest rate and redemption provisions as the related series of Mortgage Backed PC Bonds. Under the terms of the respective PC Bond Documents related to the Mortgage Backed PC Bonds, the Debtor is obligated to repay principal and interest on the respective Bond Loan only to the extent that such payments are not timely provided for by the payment of principal and interest on the respective Mortgage Bonds. Funds received by the Bond Trustee as the payment of Class 3b Allowed Claims will be applied by the Bond Trustee to satisfy a like amount of Class 4a Allowed Claims. Accordingly, the estimate of \$345 million is the aggregate amount of all Allowed Claims in Classes 3b and 4a.

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

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
		unpaid interest owed to such holder in respect of such Mortgage Backed PC Bond in accordance with the terms thereunder 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.	
		(ii) If any of the New Money Notes are secured on the Effective Date, then all of the Mortgage Backed PC Bonds shall, at the option of the Reorganized Debtor with respect to each series of Mortgage Backed PC Bonds, be (A) redeemed in accordance with their terms and each holder of an Allowed Secured Claim relating to such series of Mortgage Backed PC Bonds shall be paid Cash in an amount equal to such Allowed Claim, or (B) to the extent permitted under the terms of the Indenture, purchased in lieu of redemption or otherwise in accordance with their terms, and each holder of a Mortgage Backed PC Bond of such series will be paid a purchase price in Cash for its Mortgage Backed PC Bond(s) in an amount equal to its Allowed Secured Claim with respect to such Mortgage Backed PC Bond(s); provided, however, that, in connection with any such purchase of the Mortgage Backed PC Bonds on the Effective Date, the Reorganized Debtor shall cause the PC-Related Mortgage Bonds securing such outstanding Mortgage Backed PC Bonds (and the Mortgage pursuant to which such PC-Related Mortgage Bonds were issued) to be released and cancelled. The Reorganized Debtor may, among other things, at its option fund the redemption or purchase price of Mortgage Backed PC Bonds tendered for redemption or purchase on the Effective Date in accordance with the terms of the Plan from remarketing proceeds received from the sale and remarketing of such bonds or from the proceeds of the issuance and sale of refunding bonds, which remarketed or refunding bonds may, at the option of the Reorganized Debtor, be secured by, among other things, contingent notes issued under the same indenture as the New Money Notes and ranking <u>pari passu</u>	

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
		therewith in accordance with the provisions of Section 7.2 of the Plan.	
4b	MBIA Insured PC Bond Claims	Unimpaired—The MBIA Insured PC Bonds, and each of the PC Bond Documents relating thereto, will remain outstanding. Each holder of a MBIA Insured 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 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.	\$200
4c	MBIA Claims	<p>Impaired—Each holder of an Allowed MBIA Claim will be paid 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 any accrued and unpaid interest due on such amounts to the extent provided in the MBIA Reimbursement Agreement at the non-default rate.</p> <p>In addition, (i) if any of the New Money Notes are secured on the Effective Date, the Reorganized Debtor will deliver to MBIA, or for the benefit of MBIA, a contingent note issued under the same indenture as the New Money Notes and ranking <u>pari passu</u> therewith, in an amount equal to the aggregate outstanding principal amount of the MBIA Insured PC Bonds as additional security for the Reorganized Debtor’s obligations under the MBIA Reimbursement Agreement after the Effective Date, and (ii) if none of the New Money Notes are secured on the Effective Date but at least twenty-five percent (25%) of the aggregate principal amount of the credit</p>	Nominal

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
		<p>facilities established pursuant to the first sentence of Section 7.3 of the Plan are secured on the Effective Date, the Reorganized Debtor will deliver to MBIA, or for the benefit of MBIA, a contingent note issued under the same indenture as the New Mortgage Bonds and ranking <u>pari passu</u> therewith, in an amount equal to the aggregate outstanding principal amount of the MBIA Insured PC Bonds as additional security for the Reorganized Debtor's obligations under the MBIA Reimbursement Agreement after the Effective Date. Principal amounts under any contingent note issued pursuant to the preceding sentence shall be payable only to the extent that the Reorganized Debtor has failed to satisfy its obligations under the MBIA Reimbursement Agreement to reimburse MBIA for any payments made by MBIA pursuant to the PC Bond Insurance Policy for the payment of the principal of the MBIA Insured PC Bonds. Such contingent note shall accrue interest on any principal amount then due and payable thereunder at a rate equal to the interest rate which accrues on any outstanding reimbursement obligations of the Reorganized Debtor under the MBIA Reimbursement Agreement. Any payments made under such contingent note shall be deemed to satisfy the Reorganized Debtor's obligations under the MBIA Reimbursement Agreement.</p>	
4d	Letter of Credit Backed PC Bond Claims	<p>Unimpaired—Each series of Letter of Credit Backed PC Bonds, and each of the PC Bond Documents relating thereto, will remain outstanding. Each of the Loan Agreements and the PC Bond Documents related to the Letter of Credit Backed PC Bonds will be reinstated and rendered unimpaired in accordance with Section 1124 of the Bankruptcy Code. Each holder of a Letter of Credit Backed 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 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</p>	\$614

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

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
		fees and expenses of the Issuer and Bond Trustee due and owing under the applicable Loan Agreements will also be paid in Cash.	
4e	Letter of Credit Bank Claims	Impaired—With respect to each Letter of Credit Issuing Bank, until the earlier of (x) the Effective Date, (y) the date the respective Letter of Credit is terminated or the stated amount thereof is permanently reduced, or (z) the date that any of the related series of Letter of Credit Backed PC Bonds are redeemed, 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 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, any due and owing Forbearance, Extension and Letter of Credit Fees through the Effective Date, and the reasonable fees and expenses of unrelated third-party professionals retained by	Nominal

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

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

<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 Letter of Credit Issuing Banks, to the extent incurred subsequent to the Petition Date in the Chapter 11 Case.	
		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:	
		<u>Purchase 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 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 Letter of Credit Issuing Bank and the Banks have not been reimbursed therefor, the Letter of Credit Issuing Bank will receive Cash in an amount equal to the sum of (i) 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) 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 respective Letter of Credit Backed PC Bonds during the period from and after June 27, 2002 to and including the last scheduled interest payment date on such Letter of Credit Backed PC Bonds preceding the Effective Date, together with interest at the non-default rate due on such amounts to the extent provided in the respective Reimbursement Agreement.	

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

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
		<p>On the Effective Date, the Letter of Credit Issuing Bank shall transfer the related Letter of Credit Backed PC Bonds in the aggregate original principal amount set forth on <u>Exhibit C</u> to the Plan to the Debtor or its assignees free and clear of all liens. On the Effective Date, the Letter of Credit Issuing Bank will receive (i) 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, and (ii) a fee (the "Purchase Option Incentive Fee") in an amount equal to 0.4% of 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.</p>	
		<p>- or -</p>	
		<p><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) obtain the consent of the Issuer to remarket the respective series of Letter of Credit Backed PC Bonds without credit enhancement in accordance with the terms of the applicable Indenture. In either event, the respective series of Letter of Credit Backed PC Bonds shall be remarketed, at par, in accordance with the terms of the Indenture and the other PC Bond Documents.</p>	
		<p>In such event, on the Effective Date, the Letter of Credit Issuing Bank will receive, to the extent that the Letter of Credit Bank has not been reimbursed therefor (i) from the Debtor, Cash in an amount equal to the sum of (A) the interest portion of the purchase price of the tendered Letter of Credit Backed PC Bonds</p>	

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
		<p>paid out of a draw on the respective Letter of Credit, and (B) 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 respective Letter of Credit Backed PC Bonds during the period from and after June 27, 2002 to and including the last scheduled interest payment date on such Letter of Credit Backed PC Bonds preceding the Effective Date, together with interest at the non-default rate due on such amounts to the extent provided in the respective Reimbursement Agreement, (ii) from the Debtor, a fee (the "Remarketing Option Incentive Fee") in an amount equal to either (1) 0.5% of the aggregate principal amount of the respective Letter of Credit Backed PC Bonds remarketed on the Effective Date the payment of the principal of and interest on which are secured by either a replacement Letter of Credit, with a term of not less than one year from the Effective Date, delivered to the Trustee in accordance with the terms of the respective Indenture upon terms acceptable to the Debtor or an extension of the existing Letter of Credit delivered to the Trustee in accordance with the terms of the respective Indenture upon terms acceptable to the Debtor, or (2) 0.4% of the aggregate principal amount of the respective Letter of Credit Backed PC Bonds remarketed on the Effective Date the payment of the principal of and interest on which are not secured by such a Letter of Credit, and (iii) 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.</p>	
		- or -	
		<p><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</p>	

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
		<p>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 the result of the expiration of the respective Letter of Credit or otherwise, then at the option of the Debtor separately for each Letter of Credit Bank Claim and Reimbursement Agreement either:</p> <p>(i) On the Effective Date, the Letter of Credit Issuing Bank will receive Cash in an amount equal to the sum of (A) the principal portion of the redemption price of the redeemed Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit (the “Principal Reimbursement”) and (B) any and all accrued and unpaid interest owing to the Letter of Credit Issuing Bank in respect of such Principal Reimbursement, at a fluctuating rate of interest, in accordance with the terms of the applicable Reimbursement Agreement; or</p> <p>(ii) On the Effective Date, the Letter of Credit Issuing Bank shall sell, transfer and assign to the Debtor or its assignee, without recourse, all of the Letter of Credit Issuing Bank’s and the related Banks’ rights, title and interest in the applicable Letter of Credit Bank Claim and Reimbursement Agreement, including, but not limited to, the right to receive repayment of the Principal Reimbursement in the aggregate principal amount as set forth on <u>Exhibit C</u> to the Plan, together with the right to receive payment of interest thereon as set forth in the amended Reimbursement Agreement, free and clear of all liens. On the Effective Date, the Debtor or its assignee shall purchase from the Letter of Credit Issuing Bank and the related Banks, if any, all of their rights, title and interest in the applicable Letter of Credit Bank Claim and Reimbursement Agreement for a purchase price in Cash in an amount equal to the sum of (A) the respective Principal Reimbursement and (B) any and all accrued and unpaid interest owing to the Letter of Credit Issuing Bank in respect of such Principal</p>	

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

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

Class Claim/Interest Treatment of Allowed Claim/Interest

Reimbursement, at a fluctuating rate of interest, in accordance with the terms of the applicable Reimbursement Agreement.

In addition to the foregoing with respect to the No Bond Option, if (i) the Letter of Credit Issuing Bank maintains its Letter of Credit outstanding in the stated amount set forth on Exhibit C to the Plan 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 (ii) 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 as set forth in the LC Bank Agreement 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, on the Effective Date (A) in the event that the Letter of Credit Backed PC Bonds were redeemed 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 from the Debtor, a fee in an amount equal to 0.05% of the principal portion of the redemption price of the redeemed Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit, and (B) in the event that the Letter of Credit Backed PC Bonds are redeemed on the Effective Date for reasons beyond the control of the Letter of Credit

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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

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

Class Claim/Interest Treatment of Allowed Claim/Interest

Issuing Bank, the Letter of Credit Issuing Bank will receive from the Debtor, a fee (the “No Bonds Option Fee”) in an amount equal to 0.10% of the principal portion of the redemption price of the redeemed Letter of Credit Backed PC Bonds paid out on a draw on the respective Letter of Credit.

(iii) Pursuant to the terms of an agreement among the Debtor and each of the Letter of Credit Issuing Banks (the “LC Bank Agreement”) that was approved by order of the Bankruptcy Court entered on June 17, 2002, the Letter of Credit Issuing Banks have agreed, among other things and subject to certain conditions, to (A) maintain each of the Letters of Credit outstanding in the stated amounts set forth on Exhibit C to the Plan, (B) not provide the Trustee with notice of any default under any of the Reimbursement Agreements or non-reinstatement of any of the Letters of Credit or take any other action which would result in the mandatory tender or redemption, either in whole or in part, of any of the outstanding Letter of Credit Backed PC Bonds without the prior written consent of the Debtor, and (C) extend the expiration date of each of the Letters of Credit to the first Business Day subsequent to the one (1) year anniversary of the expiration date of each Letter of Credit existing as of the Petition Date; provided, however, that each Letter of Credit Issuing Bank is only obligated to undertake or refrain from undertaking those actions set forth in clauses (A) and (B) immediately above until the earlier of (i) the last interest payment date on the related series of Letter of Credit Backed PC Bonds immediately preceding the expiration date of such Letter of Credit, as such expiration date shall be extended in accordance with the terms of the LC Bank Agreement, or (ii) the occurrence of a “Termination Event” (as such term is defined in the LC Bank Agreement). In consideration for such forbearance and other actions by the Letter of Credit Issuing Banks, the Debtor shall, subject to certain terms and conditions as set forth in the LC Bank Agreement, pay to each Letter of Credit

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
		<p>Issuing Bank, (1) during the period from and after June 17, 2002 and continuing until July 1, 2002, quarterly, in arrears, the Letter of Credit fee as set forth in the respective Reimbursement Agreement (the “Original Letter of Credit Fee”), together with an amount equal to the positive difference, if any, of an amount per annum equal to two percent (2%) of the Stated Amount of the Letter of Credit, less the Original Letter of Credit Fee, which total fee accrues from and after December 1, 2001 and until July 1, 2002, and has been payable on the same dates as are set forth for payment of Letter of Credit Fees in the applicable Reimbursement Agreement, and (2) during the period from and after July 1, 2002 and continuing until the Effective Date, quarterly, in arrears, the Original Letter of Credit Fee, together with an amount equal to the positive difference, if any, of an amount per annum equal to three percent (3%) of the Stated Amount of the Letter of Credit, less the Original Letter of Credit Fee, which total fee accrues from and after July 1, 2002 until the Effective Date, and shall be payable on the same dates as are set forth for payment of Letter of Credit Fees in the applicable Reimbursement Agreement (the Original Letter of Credit Fee together with such additional sums being referred to collectively as the “Forbearance, Extension and Letter of Credit Fees”). Additionally, pursuant to the terms of the LC Bank Agreement, the Debtor has agreed, among other things and subject to certain conditions, to pay to Deutsche Bank AG New York Branch an agency fee in the amount of \$250,000, which fee was paid by the Debtor on June 18, 2002.</p>	
4f	Prior Bond Claims	Unimpaired—Each Allowed Prior Bond Claim will be reinstated and rendered	\$454 ⁷

⁷Each 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 at \$453,550,000 and is subject to increase by the amount of any Letter of Credit Bank Claim that is converted to a Prior Bond Claim in accordance with the “No Bonds Option” as described in treatment of Allowed Letter of Credit Bank Claims.

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

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

Class Claim/Interest Treatment of Allowed Claim/Interest

unimpaired in accordance with section 1124 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:

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 its assignee all of the Prior Letter of Credit

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
		Issuing Bank's, the related Banks' and the related Allowed Prior Bond Claim holders' 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 other holders of Allowed Prior Bonds Claims related thereto.	
4g	Treasury PC Bond Claims	Unimpaired—Each of the Loan Agreements and the PC Bond Documents related to the Treasury PC Bonds will be reinstated and rendered unimpaired in accordance with section 1124 of the Bankruptcy Code. Each series of Treasury PC Bonds will remain outstanding. Each holder of a Treasury PC Bond will be paid Cash in an amount equal to any and all accrued and unpaid interest owed to such holder in respect of such Treasury PC Bond in accordance with the terms thereof to and including the last scheduled interest payment date preceding the Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the applicable Loan Agreements will also be paid in Cash.	\$81
5	General Unsecured Claims	Impaired—Each holder of an Allowed General Unsecured Claim will be paid in Cash in an amount equal to such Allowed Claim (which shall include any Pre-Petition Interest).	\$4,613

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

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
6	ISO, PX and Generator Claims	Unimpaired—Each holder of an Allowed ISO, PX and Generator Claim will be paid Cash in an amount equal to such Allowed Claim (which shall include any Pre-Petition Interest). ⁸	\$1,607 ⁹
7	ESP Claims	Unimpaired—Each holder of an Allowed ESP Claim will be paid Cash in an amount equal to such Allowed Claim (which shall include any Pre-Petition Interest). ¹⁰	\$515 ¹¹
8	Environmental, Fire Suppression, Pending Litigation and Tort Claims	Unimpaired—Subject to Section 4.17(b) of the Plan, each Allowed Environmental, Fire Suppression, Pending Litigation and Tort Claim shall be satisfied in full in the ordinary course of business at such time and in such manner as the Reorganized Debtor is obligated to satisfy such Allowed Claim under applicable law.	\$250 ¹²
9	QUIDS Claims	Unimpaired—Each holder of an Allowed QUIDS Claim will be paid Cash in an amount equal to such Allowed Claim.	\$300 ¹³
10	Workers'	Unimpaired—Each Allowed Workers'	\$165

⁸See discussion in Section IX.A.17 of this Disclosure Statement regarding impairment with respect to Class 6.

⁹This amount represents the Debtor's estimate of Allowed ISO, PX and Generator Claims; but does not reflect reductions for amounts that the Debtor expects to recover in refunds through the FERC's determination of just and reasonable rates. The aggregate amount of filed ISO, PX and Generator Claims is materially higher. See Section IX.A.17 of this Disclosure Statement for more detailed information regarding ISO, PX and Generator Claims.

¹⁰See discussion in Section IX.A.18 of this Disclosure Statement regarding impairment with respect to Class 7.

¹¹This amount represents the Debtor's estimate of Allowed ESP Claims, but does not reflect reductions for retroactive adjustments that the Debtor expects to receive with respect to the determination of just and reasonable wholesale electricity prices. The aggregate amount of filed ESP Claims is materially higher. See Section IX.A.18 of this Disclosure Statement for more detailed information regarding the ESP Claims.

¹²This amount represents the Debtor's estimate of Allowed Environmental, Fire Suppression, Pending Litigation and Tort Claims. The aggregate amount of filed Environmental, Fire Suppression, Pending Litigation and Tort Claims is materially higher.

¹³This amount excludes \$9 million of QUIDS Claims held by a subsidiary of the Debtor.

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

<u>Class</u>	<u>Claim/Interest</u>	<u>Treatment of Allowed Claim/Interest</u>	<u>Estimated Aggregate Amount of Allowed Claims (in millions)</u>
	Compensation Claims	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 Reorganized Debtor is obligated to satisfy such Allowed Claim under applicable law. Post-petition Workers' Compensation Claims are treated as Ordinary Course Liabilities herein and shall receive the same pass-through treatment as Workers' Compensation Claims arising prior to the Petition Date. Except as provided under applicable non-bankruptcy law, Post-Petition Interest will not be paid on any Workers' Compensation Claims.	
11	Preferred Stock Equity Interests	Unimpaired—Each holder of a Preferred Stock Equity Interest will retain its Preferred Stock in the Reorganized Debtor and will be paid 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.	\$513
12	Common Stock Equity Interests	Unimpaired—Each holder of a Common Stock Equity Interest will retain its Common Stock in the Debtor.	N/A

B. CLAIMS OBJECTION PROCESS.

Any party with a Claim against the Debtor in an impaired class and who wishes to vote on the Plan must have an Allowed Claim; provided, however, that the Debtor or the holder of a Disputed Claim may seek an order of the Bankruptcy Court estimating the allowable amount of the Disputed Claim for voting purposes. A creditor whose Claim was scheduled in the Debtor's Bankruptcy Schedules and whose Claim was not listed as disputed, contingent or unliquidated, is considered to have an Allowed Claim in the scheduled amount (unless such creditor filed a proof of claim, in which case the proof of claim will supersede the scheduled Claim). Unless otherwise agreed by the Debtor and the holder of the Claim, a Claim that is the subject of a properly filed proof of claim will be deemed Allowed in the amount shown in the proof of claim; provided, however, that, if the Debtor or another party in interest objects to the Claim, the Claim shall be

1 Allowed in the amount determined by the Bankruptcy Court. As of the date hereof, the Debtor is
2 reviewing proofs of claim filed in this Chapter 11 Case, and has prepared and filed objections to
3 numerous Claims.

4 More than 13,000 proofs of claim have been filed in the Chapter 11 Case, in an
5 aggregate face amount of approximately \$50.1 billion. However, the Debtor believes that accurate
6 estimates of the allowable amount of all Claims in this Chapter 11 Case are as set forth in the table
7 above. Of the approximately \$50.1 billion of claims filed, claims aggregating approximately
8 \$26.5 billion have been disallowed by the Bankruptcy Court due to objections, claim withdrawals
9 and agreements with claimants. The Debtor has objected to or intends to object to approximately
10 \$5.4 billion of the remaining \$23.6 billion of filed claims. In addition, pursuant to the Plan, of the
11 remaining \$23.6 billion of filed claim, claims totaling approximately \$5.5 billion are expected to
12 pass through the bankruptcy proceeding and be determined in the appropriate court or other tribunal
13 during the bankruptcy proceeding or after it concludes.

14 The Plan generally permits objections to be filed until the Effective Date (or such later
15 date as the Court may order), and the Debtor reserves the right for itself, the Committee and any
16 other party in interest to file Claims objections through the objection deadline. See Section IX.F of
17 this Disclosure Statement for more information on the treatment of Disputed Claims. At or before
18 the Confirmation Hearing, the Proponents intend to establish (i) the aggregate amount of Allowed or
19 allowable Claims, for purposes of evaluating the feasibility of the Plan and (ii) the aggregate amount
20 necessary to fund the Disputed Claims reserve.

21 Without limiting the foregoing, the Debtor believes that Claims in the following classes
22 are overstated and the Debtor has filed or will file objections to (or will otherwise dispute) virtually
23 all such Claims: Class 6—ISO, PX and Generator Claims, Class 7—ESP Claims, and Class 8—
24 Environmental, Fire Suppression, Pending Litigation and Tort Claims. Accordingly, all Claims in
25 the foregoing classes will be Disputed Claims.

26 **III. DESCRIPTION AND HISTORY OF BUSINESS**

27 **A. OVERVIEW.**

28 The Debtor, Pacific Gas and Electric Company, a California corporation, was

1 incorporated in 1905. Effective January 1, 1997, the Debtor and its subsidiaries became subsidiaries
2 of the Parent, a California corporation, whose common stock and related preferred stock purchase
3 rights are publicly traded (NYSE:PCG). In the holding company reorganization, the outstanding
4 common stock of the Debtor was converted on a share-for-share basis into common stock of the
5 Parent. The Debtor's outstanding debt securities and preferred stock were unaffected by the holding
6 company reorganization and, other than those debt securities repaid or preferred stock redeemed or
7 repurchased, remain issued and outstanding securities of the Debtor. The Debtor is an operating
8 public utility engaged principally in the business of providing electricity and natural gas distribution
9 and transmission services throughout most of Northern and Central California. As of December 31,
10 2002, the Debtor served approximately 4.8 million electricity distribution customers and
11 approximately 3.9 million natural gas distribution customers in a service territory covering over
12 70,000 square miles.

13 **B. OPERATIONS.**

14 **1. Electric Utility Operations.**

15 The Debtor owns and operates electric generation facilities and an electric transmission
16 and distribution system in Northern and Central California. As of December 31, 2002, the Debtor's
17 generation facilities, consisting primarily of hydroelectric and nuclear generating plants, had an
18 aggregate net operating capacity of 6,420 megawatts ("MW"). During 2002, the Debtor's own
19 generation and generation purchased by the Debtor under power purchase agreements with
20 qualifying facilities ("QFs") and other power suppliers represented approximately seventy percent
21 (70%) of the demand of the Debtor's retail electric customers. To transport electricity to load
22 centers, as of December 31, 2002, the Debtor owned 18,605 circuit miles of interconnected
23 transmission lines and support facilities and is interconnected with generation facilities representing
24 over 23,800 MW of installed generating capacity. For the year ended December 31, 2002, the
25 Debtor sold or delivered approximately 104,500,000 MWh to its bundled retail customers and
26 transported approximately 7,400,000 MWh to direct access customers. In connection with the
27 California electric industry restructuring, the Debtor relinquished operational control, but not
28 ownership, of its electric transmission facilities to the California Independent System Operator

1 Corporation (the “ISO”). The ISO controls the operation of the transmission system, is responsible
2 for assuring the reliability of the electric system and provides open access transmission service on a
3 nondiscriminatory basis. See Section IX.A of this Disclosure Statement for a more detailed
4 discussion of the electric industry restructuring.

5 **2. Gas Utility Operations.**

6 The Debtor owns and operates gas transmission, storage and distribution assets in
7 California. The Debtor offers gas transmission, storage and distribution services as separate and
8 distinct services to its customers. Industrial and larger commercial gas (non-core) customers have
9 the opportunity to select from a menu of services offered by the Debtor and pay only for the services
10 they use. Access to the gas transmission system is possible for all gas marketers and shippers, as
11 well as non-core end-users. The Debtor’s residential and smaller commercial gas (core) customers
12 may select the commodity gas supplier of their choice, but the Debtor continues to purchase gas as a
13 regulated supplier for those core customers who do not select another supplier. As of December 31,
14 2002, the Debtor’s gas system consisted of approximately 6,300 miles of high-pressure pipelines
15 that extend from the California-Oregon border to the California-Arizona border, three gas storage
16 facilities and approximately 39,000 miles of gas distribution lines.

17 **C. REGULATION.**

18 The Debtor is currently subject to both federal and state regulation. At the federal level,
19 the FERC regulates, among other things, electric transmission rates and access, interconnections,
20 operation of the ISO and the terms and rates of wholesale electric power sales. The ISO has
21 responsibility for meeting applicable reliability criteria, planning transmission additions and
22 assuring the maintenance of adequate reserves and is subject to FERC regulation of tariffs and
23 conditions of service. In addition, most of the Debtor’s hydroelectric facilities operate pursuant to
24 licenses issued by the FERC.

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

1 Debtor’s nuclear facilities.

2 At the state level, the Commission has jurisdiction to set retail rates and conditions of
3 service for the Debtor’s electric distribution, gas distribution and gas transmission services in
4 California. The Commission also has jurisdiction over the Debtor’s sales of securities, dispositions
5 of utility property, energy procurement on behalf of its electric and gas retail customers, rates of
6 return, rates of depreciation, siting and operation of gas transportation assets, and certain aspects of
7 the Debtor’s siting and operation of its electric systems. Ratemaking for retail sales from the
8 Debtor’s remaining generation facilities is under the jurisdiction of the Commission. To the extent
9 such power is sold for resale into wholesale markets, however, it is under the ratemaking jurisdiction
10 of the FERC.

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

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

19 **IV. EVENTS PRECEDING THE COMMENCEMENT OF THE CHAPTER 11 CASE;**
20 **FILING OF THE PLAN**

21 **A. ELECTRIC INDUSTRY RESTRUCTURING.**

22 In 1998, California implemented electric industry restructuring and established a market
23 framework for electric generation in which generators and other electricity providers were permitted
24 to charge market prices for electricity sold on the wholesale market. The restructuring of the electric
25 industry was mandated by the California Legislature in Assembly Bill 1890 (“AB 1890”). The
26 mandate included a retail electricity rate freeze and ten percent (10%) retail and small commercial
27 rate reduction, and a plan for recovery of generation-related costs (“transition costs”) that were
28 expected to be uneconomic under the new market framework. AB 1890 provided that the retail rate

1 freeze would end the earlier of (i) the date a utility recovered all of its transition costs, and (ii)
2 March 31, 2002. The new market framework called for the creation of the PX and the ISO. Before
3 it ceased operation in January 2001, the PX established market-clearing prices for electricity. The
4 ISO's role is to schedule delivery of electricity for all market participants and operate certain
5 markets for electricity. Until December 15, 2000, the Debtor was required to sell all of its owned
6 and contracted generation to, and purchase all electricity for its retail customers from, the PX.
7 Customers were given the choice of continuing to buy electricity from the Debtor, or to buy
8 electricity from independent power generators or retail electricity suppliers (customers who chose to
9 buy from independent power generators or retail electricity suppliers are referred to as "direct access
10 customers"). Most of the Debtor's customers continued to buy electricity from the Debtor.

11 **B. INCREASING WHOLESALE PRICES, THE RATE FREEZE AND THE FILING**
12 **OF THE CHAPTER 11 PETITION.**

13 Beginning in May 2000, the wholesale spot prices of electricity began to escalate.
14 While forward and spot prices moderated somewhat in September and October, such prices
15 skyrocketed in November and December to levels substantially higher than during the summer
16 months. During this period, the Debtor's electric rates were frozen and provided only approximately
17 \$0.05 per kWh to pay for the Debtor's electricity costs.

18 The frozen rates were designed to allow the Debtor and the other investor owned
19 utilities ("IOUs") to recover their authorized costs and, to the extent the frozen rates generated
20 revenues in excess of authorized costs, recover their transition costs. However, beginning in May,
21 2000 and continuing during the California energy crisis, the Debtor's frozen retail rates were
22 insufficient to cover the Debtor's wholesale electricity procurement costs and other costs of utility
23 service. The Debtor's inability to recover its ongoing procurements costs from customers ultimately
24 resulted in the Debtor incurring billions of dollars in defaulted debt and unpaid bills, and on April 6,
25 2001, the Debtor filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code.

26 **C. PROCUREMENT OF POWER BY THE STATE IN PLACE OF THE DEBTOR.**

27 On January 17, 2001, because the Debtor and Southern California Edison, another
28 California IOU, were no longer creditworthy entities and consequently were unable to continue

1 buying power on behalf of their customers, the Governor of California signed an order declaring an
2 emergency and authorizing the State of California Department of Water Resources (the “DWR”) to
3 purchase power to maintain the continuity of supply to retail customers. On February 1, 2001, the
4 Governor signed Assembly Bill No. 1 of the first extraordinary session of the California Legislature
5 (“AB 1X”). AB 1X authorized the DWR to enter into contracts for the purchase of electric power,
6 but prohibited the DWR from entering into such contracts after January 1, 2003. AB 1X required
7 the DWR to sell power that it purchases directly to retail end-use customers, except as may be
8 necessary to maintain system integrity. AB 1X also required the Debtor to deliver the power
9 purchased by the DWR over its distribution systems and act as a billing and collection agent on
10 behalf of the DWR, without taking title to such power or reselling it to its customers.

11 AB 1X authorizes the DWR to recover, as a revenue requirement to the extent just and
12 reasonable, among other things, (i) amounts needed to pay the principal and interest on bonds
13 issued to finance the purchase of power, (ii) amounts necessary to pay for the power and associated
14 transmission and related services, (iii) administrative costs, and (iv) certain other amounts associated
15 with the program. AB 1X requires the Commission to set rates to cover the DWR’s reasonable
16 revenue requirements (but prohibits the Commission from increasing electric rates for residential
17 customers who use less power than 130% of their existing baseline quantities).

18 DWR has purchased power on the spot market and entered into long-term power
19 purchase agreements in fulfillment of its procurement obligations pursuant to AB 1X. The Debtor
20 has continued to distribute DWR’s power to retail customers, and to collect and remit to DWR the
21 rates charged by DWR to those customers.

22 **D. REGULATORY MATTERS**

23 **1. FERC Actions Subsequent to Filing of the Chapter 11 Petition.**

24 In response to the unprecedented increase in wholesale electricity prices during 2000
25 and 2001, the FERC issued a series of significant orders in the spring and summer of 2001 and July
26 2002 aimed at mitigating future extreme wholesale energy prices like those in 2000 and 2001.
27 These orders established a cap on bids for real-time electricity and ancillary services of \$250 per
28 megawatt-hour (“MWh”) and established various automatic mitigation procedures. In the FERC’s

1 proposal for a standard market design, the FERC proposed to adopt a safety net bid cap as part of the
2 mitigation plan for wholesale energy markets.

3 In June and July of 2001, the FERC's chief administrative law judge ("ALJ") conducted
4 settlement negotiations among power sellers, officials representing the State of California and
5 representatives from the California IOUs in an attempt to resolve disputes regarding past power
6 sales. The negotiations did not result in a settlement, but the judge recommended that the FERC
7 conduct further hearings to determine possible refunds and the amounts (if any) owed to each power
8 seller and buyer. On December 12, 2002, a FERC ALJ issued an initial decision finding that power
9 companies overcharged the utilities, the State of California, and other buyers from October 2, 2000
10 to June 2001 by approximately \$1.8 billion, but that California buyers still owe the power
11 companies approximately \$3.0 billion, leaving approximately \$1.2 billion in unpaid bills. The time
12 period reviewed in the FERC hearings excludes the claims for refunds for overcharges that occurred
13 before October 2, 2000, and after June 2001, when the DWR entered into contracts to buy
14 electricity.

15 On March 26, 2003 the FERC confirmed most of the ALJ's findings, but modified the
16 refund methodology in part. A FERC spokesman has estimated the total potential refunds, using the
17 modified methodology, at approximately \$3.3 billion but the final amount of refunds will depend
18 upon the FERC's review of further pleadings as well as sellers' attempts to justify certain fuel costs.
19 No final order on the methodology or refunds has been issued. FERC is expected to act on the
20 refund methodology and amount shortly.

21 In March 2003, additional evidence of market manipulation and artificially inflated
22 prices for electricity and natural gas for the period from January 1, 2000 to June 20, 2001 was
23 presented to the FERC, and various power suppliers filed responsive materials. On June 25, 2002,
24 the FERC issued a series of orders directing more than forty companies to show cause why they
25 should not disgorge profits for a variety of tariff violations of the ISO and PX tariffs related to
26 market manipulation. The identified entities will receive data from the ISO about transactions to be
27 investigated within 21 days and respond within 45 days. The Debtor is named as one of the
28 responding entities in connection with two issues, and has already provided some responsive

1 information to FERC.

2 **2. Certain Commission Actions Subsequent to Filing of the Chapter 11 Petition**

3 In the first quarter of 2001, the Commission authorized the Debtor to begin collecting
4 energy surcharges totaling \$0.04 per kWh (composed of a \$0.01 per kWh surcharge in January and a
5 \$0.03 per kWh surcharge approved in March).

6 In May 2001, the Commission authorized the Debtor to collect an additional \$0.005 per
7 kWh surcharge revenue for 12 months to make up for the time lag between March 2001, when the
8 Commission authorized the \$0.03 per kWh surcharge, and June 2001, when the Debtor began
9 collecting the \$0.03 per kWh surcharge. Although collection of this “half-cent” surcharge was
10 originally scheduled to end on May 31, 2002, the Commission issued a resolution ordering the
11 Debtor to continue collecting the half-cent surcharge until further consideration by the Commission.
12 The Commission restricted the use of these surcharge revenues to pay for the Debtor’s “ongoing
13 procurement costs” and “future power purchases.”

14 In November 2002, the Commission approved a decision modifying the restrictions on
15 the use of revenues generated by the surcharges to permit use of the revenues for the purpose of
16 securing or restoring the Debtor’s reasonable financial health, as determined by the Commission.

17 In October, 2001, the Commission and another California IOU, Southern California
18 Edison (“SCE”) entered into a settlement agreement. The California Supreme Court is currently
19 considering certified questions asked by the U.S. Court of Appeals for the Ninth Circuit regarding
20 the authority of the Commission under state law to enter into the settlement agreement and allow
21 SCE to recover its under-collected procurement and transition costs in light of certain provisions of
22 AB 1890. The certified questions have been fully briefed, and the Supreme Court heard oral
23 argument on this matter on May 27, 2003. No decision has been issued yet, but a decision is
24 expected by the end of August 2003. See Section XIII of this Disclosure Statement entitled “Certain
25 Risk Factors To Be Considered.”

26 In October and December of 2002, the Commission issued decisions ordering and
27 authorizing the Debtor to resume full procurement of the wholesale power needed to serve its retail
28 customers on January 1, 2003, under an approved procurement plan pursuant to a new state law, AB

1 57/SB 1976, which provides for reasonableness standards and up-front approval by the Commission
2 of utility-procurement plans.

3 **3. DWR Revenue Requirement and Servicing Agreement; Resumption of**
4 **Procurement**

5 In accordance with AB 1X, in January, 2001, the DWR began purchasing the amount of
6 electricity needed by the California IOUs' customers that could not be provided by the IOUs, either
7 through their own generation or by suppliers under contracts with the IOUs. In addition to
8 purchasing electricity on the spot market, the DWR entered into long-term contracts for the supply
9 of electricity and associated goods and services. In September 2002, the Governor signed SB 1976
10 into law. SB 1976 required the Commission to allocate electricity subject to existing DWR
11 contracts among the customers of the California IOUs, including the Debtor's customers. As
12 required by SB 1976, each California IOU submitted an electricity procurement plan to meet that
13 portion of its customers' needs that is not covered by the combination of the allocation of electricity
14 from existing DWR contracts to that IOU's customers and the IOU's own electric resources and
15 contracts, referred to as the "residual net open position."

16 On September 19, 2002, the Commission issued a decision allocating electricity subject
17 to the DWR contracts to the generation portfolios of the three California IOUs for operational and
18 scheduling purposes, with the DWR retaining legal title and financial reporting and payment
19 responsibilities associated with these contracts. The IOUs became responsible for scheduling and
20 dispatch of the quantities subject to the allocated contracts and for many administrative functions
21 associated with those contracts on January 1, 2003. On January 1, 2003, the IOUs also resumed the
22 function of procuring electricity to meet their customers' residual net open position. On December
23 23, 2002, the Bankruptcy Court entered an order authorizing the Debtor to take all action necessary
24 to resume power procurement, including procurement of the residual net open position.

25 In April 2003, the Debtor and the DWR entered into an operating agreement, which has
26 been approved by the Commission, pursuant to which the Debtor provides operational, dispatch,
27 administrative and other services for the DWR allocated contracts. Both the Debtor and the DWR
28 have filed petitions to modify certain terms of the operating agreement.

1 In addition, pursuant to the Proposed Settlement Agreement, if the Commission desires,
2 the Debtor would agree to accept an assignment of or to assume legal and financial responsibility for
3 the DWR contracts previously allocated to the Debtor for operational and administrative purposes;
4 provided, however, that (i) S&P has issued a long-term issuer credit rating for the Debtor after
5 assumption and on a going-forward basis of not less than A and Moody's has issued an issuer rating
6 for the Debtor of not less than A2, (ii) the Commission first makes a finding that the DWR Contracts
7 being assumed or assigned are just and reasonable, and (iii) the Commission had acted to ensure that
8 the Debtor will receive full and timely recovery in retail electric rates of all such contract costs over
9 the life of the contracts without further review. Under this provision, the Commission shall retain its
10 discretion to review the prudence of the Debtor's administration and dispatch of the DWR contracts,
11 consistent with applicable law.¹⁴

12
13 ¹⁴In connection with pre-petition and post-petition claims filed by DWR in the Chapter 11
14 Case, DWR and the Debtor are in dispute regarding certain matters relating to DWR's revenue
requirements and the Debtor's remittances to DWR. DWR asserts as follows:

15 "DWR asserts that it provided pre-scheduled electric power and has paid for imbalance
16 energy procured by the California Independent System Operator Corporation ('ISO')
17 delivered directly to customers of the Investor Owned Utilities ('IOUs') from January
18 17, 2001 to December 31, 2002, and has and will continue to provide electric power
19 through long term power contracts. Pursuant to various Commission decisions,
including but not limited to Decision No. 012-12-072 (the 'Servicing Order') and the
Operating Agreement with PG&E dated April 17, 2003 (the 'Operating Agreement'),
PG&E and other IOUs have been collecting payments from their customers for DWR
energy.

20 "Various disputes have arisen between DWR and PG&E relating to responsibility for
21 various charges, the proper methodologies to use in calculating remittances from PG&E
22 to DWR and the actual amount to be remitted. DWR asserts, and PG&E has
23 acknowledged, that the moneys collected by PG&E for DWR energy are DWR moneys
24 which are not property of PG&E's bankruptcy estate and which PG&E is holding in
25 trust for the benefit of DWR until remitted to DWR. In addition, it is DWR's position
that, under Commission Decision 02-09-023, modifying Decision 02-03-058, the
Commission determined that DWR is only responsible for 'costs associated with
procuring energy and energy-related services for the net short. All other costs are
PG&E's responsibility.' See D. 02-09-023, at 10.

26 "To protect its interests, DWR filed several proofs of claim including Claim No. 12323,
27 as amended by Claim No. 12592, in the Chapter 11 Case, to recover, *inter alia*, moneys
28 DWR claimed were owed to it for funds expended in connection with energy purchased
under AB1x provided to PG&E customers (the 'DWR Pre-Petition Claims'). In
addition, DWR filed post-petition claims pursuant to the order of the Bankruptcy Court

(continued . . .)

1 V. THE REORGANIZATION CASE

2 A. COMMENCEMENT OF THE CHAPTER 11 CASE

3 The Chapter 11 Case was commenced on April 6, 2001. The Debtor continues to
4 operate its business and manage its properties as a “debtor-in-possession” pursuant to sections 1107
5 and 1108 of the Bankruptcy Code.

6 B. ADMINISTRATION OF THE CHAPTER 11 CASE

7 1. First Day Orders.

8 On the Petition Date, the Debtor obtained a series of orders from the Bankruptcy Court
9 designed to minimize any disruption of its business operations and to facilitate its reorganization.
10 The Bankruptcy Court entered orders authorizing the Debtor, among other things, to pay employee
11 compensation and benefits payable for period before the Petition Date and to continue to use its

12 _____
(. . . continued)

13 dated August 20, 2001 (the ‘DWR Post-Petition Claims’).

14 “The DWR Pre-Petition Claims and DWR Post-Petition Claims, include, *inter alia*,
15 DWR’s claims for: Western Area Power Administration (‘WAPA’) retail remittances
16 which could total in excess of \$500 million; DWR’s claim for retail remittances for
17 imbalance energy (including OOM); and DWR’s claims for certain disputed ISO
18 Charges including Grid Management Charges, that have been determined to be PG&E’s
19 responsibility which could total in excess of \$101 million. In addition, PG&E and DWR
20 are in dispute regarding which of them has responsibility for January 17-18, 2001
21 purchases made on behalf of PG&E by the California Power Exchange Corporation
22 which could total in excess of \$55 million. Finally, PG&E and DWR have various
23 disputes regarding remittances, including general under-remittances for November and
24 December of 2002 (and potentially other periods) due to PG&E accounting systems
25 and/or methodologies which could total in excess of \$83 million; the remittance rate for
26 Interim Renewable Contracts which could total in excess of \$16 million; Direct Access
27 Power Charges which could total in excess of \$19 million; and Direct Access Bond
28 Charges. The total amount is in excess of \$770 million.”

22 The Debtor agrees that the Proposed Settlement Agreement, the Plan and the Confirmation
23 Order are not intended, nor shall they be construed, to affect in any way the rights, obligations and
24 authority of DWR and the Commission under AB 1X as implemented in legally binding
25 determinations and decisions by DWR, the Commission or the courts, and in legally binding
26 agreements between DWR and the Debtor. However, the Debtor disputes DWR’s assertions and
27 claims, and further believes that its remittances to DWR are likely to be reduced or offset by
28 reductions in DWR’s revenue requirements, including, without limitation, DWR’s proposal for a \$1
billion reduction in its statewide revenue requirements for 2003. In addition, the Debtor is currently
engaged in civil litigation against the DWR in California courts which it believes, if successful,
could further significantly reduce its remittances to DWR. The Debtor has filed an objection to the
DWR claims, and the Debtor and DWR have agreed to continue the hearing on such objection while
they attempt to resolve their disputes amicably and before the Commission. The Debtor’s objection
remains pending before the Bankruptcy Court.

1 bank accounts, cash management system and corporate investment policy.

2 **2. Second Day Orders.**

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

10 **3. Third Day Orders.**

11 On April 10, 2001, the Debtor obtained various orders from the Bankruptcy Court that
12 allowed the Debtor to satisfy certain obligations to its customers without disruption. The
13 Bankruptcy Court granted the Debtor the authority to issue refunds of security deposits to residential
14 and non-residential customers as those deposits become eligible for refund through the Debtor's
15 existing deposit refund policies. Based on historical averages, the Debtor refunds approximately
16 \$3.5 million in residential and non-residential customer deposits per month. The Bankruptcy Court
17 also granted the Debtor the authority to issue refunds of mainline extension service deposits to
18 individual residential customers pursuant to an order issued the following day. These deposits are
19 required when engineering and construction work is needed to develop bare lots or add new loads to
20 existing service.

21 **4. Creditors' Committee.**

22 Section 1102 of the Bankruptcy Code requires that as soon as practicable after the
23 commencement of a chapter 11 case, the United States Trustee must appoint an official committee
24 of unsecured creditors. On April 11, 2001, the United States Trustee appointed the Committee. The
25 Committee is comprised of Reliant Energy, Inc., Dynegy Power Marketing, Inc., P-E Berkeley, Inc.,
26 GWF Power Systems Company, Inc., Bank of America, N.A., Morgan Guaranty, Merrill Lynch,
27 Davey Tree Expert Co., the City of Palo Alto, California, the State of Tennessee and Pacific
28 Investment Management Company LLC. Morgan Guaranty, Pacific Investment Management

1 Company and Reliant Energy were appointed by the United States Trustee on April 20, 2001,
2 August 8, 2001 and November 9, 2001, respectively, to replace U.S. Bank, the Bank of New York
3 and Enron Corp., respectively, which were initially appointed to, but later resigned from, the
4 Committee. The Committee has retained Milbank, Tweed, Hadley & McCloy LLP as its legal
5 counsel, FTI Consulting (formerly a part of PricewaterhouseCoopers) as its accounting advisor and
6 Saybrook Capital as its financial advisor.

7 **5. Public Purpose Programs.**

8 On April 24, 2001, the Debtor filed a motion with the Bankruptcy Court asking the court
9 to confirm that the funds collected by the Debtor for its Public Purpose Programs—including energy
10 efficiency, low income, research and development and renewable generation programs—are not part
11 of the bankruptcy estate and can be used to honor obligations incurred before the Petition Date in
12 connection with the programs. At the time of the motion, the Debtor owed approximately \$37
13 million to customers who requested rebates and contractors who performed work in homes and
14 businesses to make them more energy efficient. The Debtor operates the most extensive energy
15 efficiency programs in the nation and argued that the continued vitality of the programs is critical to
16 reduce the State’s capacity constraints. The Bankruptcy Court approved the Debtor’s motion on
17 May 16, 2001.

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

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

26 **7. Request for Preliminary Injunction against the ISO.**

27 On May 3, 2001, the Debtor filed an adversary action and a motion for a preliminary
28 injunction in the Bankruptcy Court, asking the court to direct the ISO to comply with bankruptcy

1 law, its tariff and a FERC ruling by ceasing to purchase wholesale power on behalf of the Debtor or
2 billing the Debtor for such purchases. The ISO had sent the Debtor a bill for spot market purchases
3 over a two-month period that totaled nearly \$1 billion. The Debtor's adversary action, which
4 included a request for a preliminary injunction, asked the court to enjoin the ISO from requiring the
5 Debtor to pay costs the ISO has incurred and continues to incur to purchase wholesale power on its
6 behalf, unless the Debtor can fully recover these costs. The motion was premised upon a FERC
7 order specifying that since the Debtor failed to satisfy the credit requirements under the ISO tariffs,
8 it was not a creditworthy buyer and, consequently, the ISO lacked authority to make real time
9 purchases on its behalf.

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

18 **8. Denial of Ratepayers' Committee, TURN's Motion to Intervene and**
19 **Government Creditors' Committee.**

20 On May 4, 2001, the United States Trustee appointed a Ratepayers' Committee. On
21 May 9, 2001, the Debtor filed a motion with the Bankruptcy Court asking the court to vacate the
22 United States Trustee's appointment of the Ratepayers' Committee. The filing indicated that the
23 creation of a Ratepayers' Committee exceeded the authority of the United States Trustee because it
24 was inconsistent with express provisions of the Bankruptcy Code. On May 18, 2001, the
25 Bankruptcy Court granted the Debtor's motion and vacated the Ratepayers' Committee. On July 10,
26 2001, the Bankruptcy Court denied a motion by the United States Trustee and the putative
27 Ratepayers' Committee for reconsideration of its order vacating the Ratepayers' Committee.

28 On November 5, 2001, The Utility Reform Network ("TURN") filed a motion to

1 intervene on behalf of residential and small business ratepayers. The Bankruptcy Court denied the
2 motion on December 3, 2001 since TURN is already a creditor in the Chapter 11 Case and has the
3 ability to appear and be heard in that capacity.

4 In November 2001, a group of seven (7) California cities and counties moved for the
5 appointment of a government creditors' committee. The Bankruptcy Court denied the motion on
6 December 7, 2001.

7 **9. Authorization of Employee-Related Matters.**

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

20 **10. Transition Period Accounting Proposal.**

21 On March 27, 2001, the Commission issued a regulatory accounting order (the "TURN
22 Accounting Order") that required the Debtor to restate all of its regulatory books and accounts
23 retroactively to January 1, 1998, by transferring on a monthly basis the balance in the Debtor's TRA
24 to the Debtor's TCBA. Thus, rather than transferring only the monthly "headroom" to pay down
25 transition costs in the months that revenues exceeded the costs of service, the Commission changed
26 the accounting rules to require the transfer of the monthly balance in the TRA, regardless of whether
27 it was overcollected or undercollected. The retroactive transfer of a TRA undercollection had the
28 effect of reversing some previously recorded transition cost recovery, and instead applying the prior

1 headroom to offset the undercollection of some procurement costs. Depending on the amount and
2 timing of generation valuation, it is possible that the effect of the TURN Accounting Order would be
3 that such transition costs have not been fully recovered and the conditions for meeting the rate freeze
4 have not been met. The Debtor's Application for Rehearing of the TURN Accounting Order was
5 denied by the Commission, and its petitions for writ of review of the Commission's decisions were
6 summarily denied by the California courts.

7 On April 9, 2001, the Debtor asked the Bankruptcy Court to stay the Commission's
8 TURN Accounting Order. On June 1, 2001, the Bankruptcy Court denied with prejudice the
9 Debtor's request for a stay and an injunction on the transition period accounting proposal. The
10 Debtor appealed the Bankruptcy Court's decision to the United States District Court for the
11 Northern District of California, which appeal is still pending.

12 **11. Omnibus Motions.**

13 On June 6, 2001, the Debtor, with the approval of the Committee, filed a series of
14 "omnibus" motions with the Bankruptcy Court requesting authorization for the Debtor to enter into
15 a range of transactions in the course of its business within certain specified parameters and without
16 further motion or court approval. These motions included requests for authorization for the Debtor
17 to settle post-petition third-party claims, make capital expenditures and continue its environmental
18 programs, in each case subject to specified per transaction or aggregate dollar limitations. The
19 Bankruptcy Court approved all of the omnibus motions at the hearing on the motions held on
20 June 26, 2001, and subsequently issued its orders granting the motions. In addition, in October
21 2001, the Bankruptcy Court granted a motion filed by the Debtor for authority to sell or otherwise
22 dispose of real and personal property and enter into certain lease, license and permit transactions,
23 within specified parameters.

24 **12. QF Agreements.**

25 As of the Petition Date, the Debtor was party to approximately 330 power purchase
26 agreements ("PPAs") with various QFs. Almost immediately after the Petition Date, several of the
27 QFs filed motions requesting various forms of relief, including: (a) relief from the automatic stay to
28 permit the QFs to "suspend" deliveries of energy to the Debtor and sell into the market, pending the

1 Debtor's assumption or rejection of the QF power purchase agreements, (b) an order requiring the
2 Debtor to decide immediately whether to assume or reject the power purchase agreements, (c) an
3 order requiring the Debtor to pay "market rates" for energy delivered under the power purchase
4 agreements, rather than at the contract rate, and (d) an order requiring the Debtor to "pre-pay" for
5 deliveries under the power purchase agreements. The Debtor opposed these motions on a number of
6 grounds.

7 Following negotiations between the Debtor and the QFs, in July 2001, 197 QFs elected
8 to adopt Commission-approved amendments to their PPAs to fix their energy payments at \$0.0537
9 per kWh for five years. In December 2001, the Bankruptcy Court approved supplemental
10 agreements between the Debtor and most QFs to resolve the applicable interest rate to be applied to
11 amounts payable to QFs before the Petition Date. The Supplemental Agreements:

- 12 ? set the interest rate for payables incurred before the Petition Date at five percent
13 (5%) per annum;
- 14 ? provided for a "catch up payment" of all accrued and unpaid interest through the
initial payment date; and
- 15 ? depending on the amount owed, provided for either (a) a lump-sum payment of the
16 principal amount of the pre-petition payables and interest thereon, or (b) 6 or 12
17 monthly payments beginning on the last business day of the month during which
the Bankruptcy Court approval of the Supplemental Agreement was granted. In the
18 event the Effective Date occurs before the last monthly payment is made, the
remaining unpaid principal and accrued but unpaid interest thereon shall be paid in
full on the Effective Date.

19 The total amount the Debtor owed to the QFs when it filed the Chapter 11 Case was
20 approximately \$1 billion. The principal payments to the QFs amounted to \$901 million in 2001 and
21 2002 and the interest payments amounted to \$44 million in 2002 and \$16 million in 2001.

22 Approximately 280 of the 313 QFs have signed assumption and/or supplemental
23 agreements. The Debtor believes it will be able to enter into similar agreements with some of the
24 remaining QFs.

25 **13. Claims Management Motions.**

26 On December 7, 2001, the Debtor filed two motions to expedite the process of settling
27 and objecting to Claims. In the first motion, the Debtor sought authority to settle certain Claims
28 without the burden and expense of seeking review by the Committee and other parties in interest,

1 and without Bankruptcy Court approval of each proposed settlement. Over 13,000 proofs of claim
2 have been filed in this Chapter 11 Case, the vast majority of which were filed in an amount less than
3 \$100,000. Accordingly, the Debtor sought the authority to settle any Claim (a) where the proposed
4 Allowed amount of such Claim is \$100,000 or less and (b) where the proposed Allowed amount
5 exceeds \$100,000 but is no more than \$5.0 million, and is the lesser of (i) one hundred ten percent
6 (110%) of the amount of such Claim as set forth on the Debtor's Bankruptcy Schedules, and
7 (ii) \$500,000 more than the amount of such Claim as set forth on the Debtor's Bankruptcy
8 Schedules. The requested authority enables the Debtor to reduce professional fees and other costs
9 for all affected parties in interest, provide flexibility to expeditiously resolve Claims and facilitate
10 the efficient administration of the estate. The Bankruptcy Court approved the motion at a hearing
11 held on December 27, 2001. Excepted from the authority to settle without Bankruptcy Court
12 approval are Claims of the Parent or any affiliate of the Parent, any officer or director of the Debtor
13 or the Parent or any member of the Committee.

14 In the second motion, the Debtor sought authority to file and seek adjudication of certain
15 preliminary omnibus or grouped objections to Claims on preliminary, but potentially dispositive,
16 grounds that can be addressed with a minimum expenditure of judicial time and estate resources,
17 without waiving the right to assert subsequent substantive objections to the same Claims if
18 necessary. For example, the Debtor asserted preliminary objections on the grounds that, among
19 other things, (a) certain Claims are duplicative, (b) certain Claims have been satisfied or otherwise
20 resolved, (c) certain Claims are time-barred, and (d) certain claims lacked adequate documentation.
21 This objection procedure was designed to allow the efficient and expeditious determination of
22 certain Claims aggregating billions of dollars without lengthy hearings on the merits. The
23 Bankruptcy Court approved the motion at a hearing held on December 27, 2001 and also ordered the
24 suspension of the application of Bankruptcy Rule 7026(a) and (f) to the Claims objections
25 proceedings, on the condition that any claimant whose Claim is subject to an objection be notified
26 that it may request application of such rule, and that the Bankruptcy Court will consider such request
27 at the first hearing on the objection.
28

1 **14. Stipulation with Letter of Credit Issuing Banks and the Banks.**

2 Pursuant to an order dated September 7, 2001, the Bankruptcy Court approved a
3 stipulation between the Debtor, on the one hand, and the Letter of Credit Issuing Banks and the
4 Banks, on the other hand (the “Class 4e Stipulation”). The Class 4e Stipulation provides, among
5 other things, that, in exchange for the Letter of Credit Issuing Banks and the Banks agreeing to
6 continue to maintain and reinstate the Letters of Credit, any Post-Petition Interest drawings under
7 the Letters of Credit will constitute Allowed Claims in favor of the Letter of Credit Issuing Banks
8 and the Banks. See Section IX.A.13 of this Disclosure Statement for a description of the treatment
9 of Class 4e under the Plan.

10 **15. Motion to Assume Main Line Extension Contracts.**

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

19 **16. Stipulation between Palo Alto, NCPA and the Debtor Regarding the**
20 **Stanislaus Commitments.**

21 On February 11, 2002, the Debtor entered into a stipulation with the Northern California
22 Power Agency (“NCPA”) and the City of Palo Alto (“Palo Alto”) relating to the Stanislaus
23 commitments. NCPA is a joint-powers agency that generates, transmits and distributes power to
24 and on behalf of member cities and districts. The Stanislaus commitments refer to certain antitrust
25 license conditions included in the Debtor’s Diablo Canyon Power Plant NCR licenses, as
26 implemented in a 1991 settlement agreement between NCPA and the Debtor in a NRC proceeding.
27 In general terms, the Stanislaus commitments require the Debtor to make available electric
28 transmission and interconnection services to the NCPA and its member entities.

1 The Debtor has agreed, among other things, that the resolution of this Chapter 11 Case
2 will have no adverse effect on the ability of the Reorganized Debtor to fulfill the obligations in the
3 Stanislaus commitments.

4 **17. Estimation of Antitrust Claims.**

5 Following the filing of the Original PG&E Plan and the Commission Plan, the Northern
6 California Power Agency, the City of Palo Alto, and the City of Santa Clara (collectively,
7 “Municipal Objectors”) filed objections contending that both the Original PG&E Plan and the
8 Commission Plan were not feasible because they did not provide a reserve for alleged damages
9 attributable to certain disputed and unliquidated claims of the Municipal Objectors based on
10 PG&E’s alleged breaches of the Stanislaus commitments and Section 2 of the Sherman Act and
11 related alleged wrongs (collectively, the “Municipal Claims”). In general, these Claims concerned
12 the Municipal Objectors’ assertions that PG&E had abused its alleged monopoly power in electrical
13 transmission or distribution to deny the Municipal Objectors reasonably priced transmission services
14 and otherwise to increase the Municipal Objectors’ costs. In November 2002, the Municipal
15 Objectors and PG&E entered into a stipulation, the (“Estimation Stipulation”), which provided that
16 the Bankruptcy Court would estimate the Municipal Claims solely for purposes of determining plan
17 feasibility. The Estimation Stipulation provided for a three-day estimation trial, with a maximum of
18 five percipient witnesses and three expert witnesses per party, together with such written exhibits
19 (including deposition testimony and declarations) and demonstrative exhibits as each party offered.

20 The matter proceeded to trial on January 27, 2003. Through their damages expert, the
21 Municipal Objectors asserted that the present value of the Municipal Claims was between \$452.1
22 and \$1,213.6 million. The Municipal Objectors asserted that these damages would be subject to
23 automatic trebling under the antitrust laws, resulting in a present value damages figure as high as
24 \$3.64 billion. In response, PG&E asserted that no violation of the antitrust laws had occurred and
25 that the damages figures advanced by the Municipal Objectors were defective as a matter of law.
26 The trial concluded on January 29, 2003. Thereafter, the parties submitted proposed findings of fact
27 and conclusions of law.

28 On May 15, 2003, the Bankruptcy Court entered its Memorandum Decision on

1 Estimation of Antitrust Claims and a companion Order on Estimation of Antitrust Claims. Solely
2 for purposes of estimation for feasibility, the Bankruptcy Court found that PG&E had monopoly
3 power in electrical distribution and that PG&E and the Municipal Objectors were competitors, and
4 that PG&E transmission infrastructure was an “essential facility.” However, the Bankruptcy Court
5 also found, subject to the same qualifications, that any antitrust claims advanced by the Municipal
6 Objectors would fail because the Municipal Objectors failed to establish that PG&E denied them
7 access to its transmission system or made the cost of such access so high as to drive the Municipal
8 Objectors from the market, and that, at least until a new market structure is determined, it was not
9 clear that there would be a “regulatory gap” in pricing. The Bankruptcy Court further found that
10 even if an antitrust claim could be established, PG&E likely had business justification defenses for
11 its actions in divesting a portion of its local generation capacity to third parties, refusing to sell the
12 Municipal Objectors a portion of the transmission system, and terminating certain prior contractual
13 arrangements with the Municipal Objectors, but that PG&E had failed to carry its burden to establish
14 a business justification defense for its transmission planning decisions. The Bankruptcy Court also
15 found that PG&E likely would be unable to establish a state action immunity defense to all of its
16 actions. Finally, the Bankruptcy Court found that the damages estimate advanced by the Municipal
17 Objectors was highly speculative and failed to account for the many ways in which the damages
18 might be reduced or eliminated.

19 On the basis of these findings, the Bankruptcy Court entered an order in which it
20 estimated the Municipal Claims “as having no value for purposes of feasibility under 11 U.S.C.
21 §1129(a)(11).” The Municipal Objectors did not appeal this order.

22 **18. Settlement and Support Agreement with Senior Debtholders; and Agreement**
23 **with Letter of Credit Issuing Banks.**

24 a. Settlement and Support Agreement with Senior Debtholders.

25 On March 27, 2002, the Bankruptcy Court issued its “Order on Motion by Pacific Gas
26 and Electric Company for Order (A) Approving Settlement and Support Agreement By and Among
27 Plan Proponents and Senior Debtholders, (B) Authorizing Payment of Pre- and Post-Petition Interest
28 to Holders of Undisputed Claims in Certain Classes, (C) Authorizing Payment of Fees and Expenses

1 of Indenture Trustees and Paying Agents and (D) Authorizing Debtor to Enter into Similar
2 Agreements” (the “Settlement Order”). The Settlement Order approved the Settlement and Support
3 Agreement between the Proponents and certain holders of Senior Indebtedness (the holders of
4 approximately \$2 billion in Commercial Paper Claims, Floating Rate Note Claims, Medium Term
5 Note Claims, Senior Note Claims and Revolving Line of Credit Claims); authorized the Debtor to
6 pay Pre-Petition Interest and Post-Petition Interest to certain holders of undisputed Claims entitled to
7 interest under the Plan on a quarterly basis, and authorized the Debtor to pay the fees and expenses
8 of the holders of Senior Indebtedness who are parties to the Settlement and Support Agreement,
9 indenture trustees and administrative banks and other paying agents on a current basis.

10 Pursuant to the Settlement and Support Agreement, the principal amount of the Allowed
11 Claims in Class 5 held by the holders of Senior Indebtedness who are parties thereto is fixed, and
12 interest will accrue and be paid at certain agreed-upon rates, but such accrual and payment at the
13 agreed-upon rates may cease and prior payments of interest may be recharacterized under certain
14 circumstances, including (a) a determination by the Bankruptcy Court that the Debtor is insolvent,
15 (b) the confirmation of a plan of reorganization other than the Original PG&E Plan, and (c) certain
16 breaches of the Settlement and Support Agreement by such holders. The Plan incorporates the
17 provisions of the Settlement and Support Agreement, except those provisions that are rendered
18 inapplicable because of the payment of Senior Indebtedness and certain other Claims in Cash under
19 the Plan.

20 b. Agreement With Letter of Credit Issuing Banks.

21 Subsequent to the entry of the Class 4e Stipulation (discussed in Section V.B.14 above),
22 the Debtor, the Letter of Credit Issuing Banks and the Banks entered into discussions regarding an
23 agreement with respect to the treatment under the Plan of the Allowed Claims in Class 4e which
24 would, at the same time, allow the Debtor to retain the benefits of the tax-free financing provided by
25 the Letter of Credit Backed PC Bonds. In general, the agreement provides, subject to certain
26 conditions, that in exchange for the payment of various amounts to the Letter of Credit Issuing
27 Banks and the Banks, such entities will extend the Letters of Credit and forbear from terminating the
28 Letters of Credit or causing the mandatory tender or redemption of the Letter of Credit Backed PC

1 Bonds for a period of time. The agreement also provides for certain treatment for the Claims of
2 Class 4e creditors under the Plan. The Bankruptcy Court entered an order approving the agreement
3 on April 9, 2002, and approving an amended and restated agreement on June 17, 2002, thus
4 resulting in the treatment of the Claims in Class 4e as described in Section IX.A.13 below.

5 **19. Motion Seeking Authorization to Pay Certain Claims.**

6 At a hearing held on March 25, 2002, the Bankruptcy Court granted a motion filed by
7 the Debtor seeking authorization to pay certain valid Claims made before the Petition Date;
8 specifically, Allowed Claims for amounts of \$5,000 or less (or voluntarily reduced by the claimant
9 to \$5,000), undisputed mechanics' lien claims and undisputed reclamation claims. Pursuant to the
10 motion, the Debtor paid all such claims on or before July 31, 2002, with interest at the Federal
11 Judgment Rate from the Petition Date through June 30, 2002.

12 **VI. HISTORY OF THE PLAN OF REORGANIZATION**

13 On September 20, 2001, the Debtor and the Parent, as co-proponents (the "PG&E
14 Proponents"), filed the Original PG&E Plan, which provided, generally, for the payment in full of
15 all of the Debtor's obligations, either in cash, in notes, or in a combination of cash and notes to be
16 distributed to creditors, and for the disaggregation of the Debtor's businesses. That plan was
17 amended and modified a number of times, with the most recent modification to the Original PG&E
18 Plan having been filed on May 22, 2003.

19 On April 15, 2002, the Commission filed its original plan of reorganization for the
20 Debtor. Subsequently, the Commission and the Committee filed an amended plan of reorganization
21 for the Debtor, dated August 30, 2002, and filed further amended plans on November 6, 2002 and on
22 December 5, 2002, with the last such filing constituting the Commission Plan.

23 The Bankruptcy Court commenced confirmation hearings on the competing plans of
24 reorganization on November 18, 2002. During the confirmation hearing on the Original PG&E
25 Plan, the Bankruptcy Court entered an order mandating a judicial settlement conference and, on
26 March 11, 2003, entered an order staying further confirmation and related proceedings for sixty (60)
27 days to facilitate the mandatory settlement process. On April 23, 2003, the Bankruptcy Court issued
28 an order staying further confirmation and related proceedings for an additional thirty (30) days, and

1 scheduled a status conference for June 16, 2003. Pursuant to an order dated June 5, 2003, the
2 Bankruptcy Court extended the stay of proceedings until, and continued the status conference to,
3 June 20, 2003.

4 Through the settlement process, the Proposed Settlement Agreement was reached.
5 Pursuant to the Proposed Settlement Agreement, which is supported by the staff of the Commission
6 but is subject to review and approval by the Commission after public hearings, the Debtor and the
7 Commission agree to jointly support a proposed new plan of reorganization to be submitted to the
8 Bankruptcy Court that embodies the terms and conditions contained in the Proposed Settlement
9 Agreement. Upon being informed of the Proposed Settlement Agreement, at the June 20, 2003
10 Status Conference, the Bankruptcy Court stayed indefinitely all confirmation and related
11 proceedings in connection with the competing plans and scheduled a hearing to approve this
12 Disclosure Statement for July 30, 2003. On July 31, 2003, the Proponents filed this Disclosure
13 Statement and the Plan, pursuant to the Proposed Settlement Agreement. The Proposed Settlement
14 Agreement constitutes an integral and material part of the Plan and is incorporated in the Plan by
15 reference and made a part of the Plan with the same force and effect as if stated verbatim therein.

16 **VII. SUMMARY OF THE PROPOSED SETTLEMENT AGREEMENT.**

17 The parties to the Proposed Settlement Agreement would be the Debtor, the Parent and
18 the Commission. Pursuant to the Proposed Settlement Agreement, the Debtor would no longer
19 propose to disaggregate its historic businesses, instead remaining a vertically-integrated utility under
20 Commission regulation. The Proposed Settlement Agreement states that it is in the public interest to
21 restore the Debtor to financial health and maintain and improve its financial condition in the future
22 to ensure that it is able to provide safe and reliable electric and gas service to its customers at just
23 and reasonable rates. The parties to the Proposed Settlement Agreement intend that the Debtor
24 emerge from Chapter 11 as soon as possible with an investment grade credit rating, and that the
25 Debtor's credit rating will improve over time. The Proposed Settlement Agreement states that
26 investment grade credit ratings are necessary for the Debtor to emerge from Chapter 11 and will
27 directly benefit the Debtor's ratepayers by reducing the cost of financings required for emergence
28 and required to fund future operations and capital expenditures. The parties would state that it is fair

1 and in the public interest to allow the Debtor to recover, over a reasonable period of time, prior
2 uncollected costs and to provide the opportunity for the Debtor's shareholders to earn a reasonable
3 rate of return on the Debtor's utility business. Under the Proposed Settlement Agreement, the
4 parties expect that retail electric rates charged by the Debtor will be reduced on January 1, 2004,
5 with further reductions expected thereafter. The Debtor would release claims against the
6 Commission that would have been retained by the Debtor or the Parent under the Original PG&E
7 Plan. In lieu of these claims and the value created under the Original PG&E Plan, the Debtor's
8 shareholder would receive value over nine years through the Proposed Settlement Agreement, the
9 Plan and the Confirmation Order.

10 The Proposed Settlement Agreement is subject to the approval of the Debtor's and the
11 Parent's respective boards of directors, approval by the Commission, and execution by the parties on
12 or before December 31, 2003. The Commission is expected to conduct an extensive public hearing
13 process before deciding whether to approve the Proposed Settlement Agreement, and has adopted a
14 schedule for such hearing process. The hearing process commenced on July 25, 2003. The Debtor
15 expects the Commission to issue a proposed decision on November 18, 2003 and a final decision on
16 December 18, 2003.

17 Once executed, the Proposed Settlement Agreement would terminate at the end of nine
18 years, except that all rights of the parties under the Proposed Settlement Agreement that have vested
19 before the end of nine years would survive the termination for the purpose of enforcing such vested
20 rights.

21 The Proposed Settlement Agreement is expressly conditioned on the preparation and
22 filing of the Plan and this Disclosure Statement, approval by the Bankruptcy Court of the Plan and
23 this Disclosure Statement and the Confirmation Order, each in form and substance reasonably
24 satisfactory to each party. The Proposed Settlement Agreement provides, among other conditions,
25 that the Plan would not become effective until Standard & Poors ("S&P") has issued a long-term
26 issuer credit rating for the Debtor of not less than BBB- and Moody's has issued an issuer rating for
27 the Debtor of not less than Baa3, and the Commission has given final, nonappealable approval for
28 all rates, tariffs, and agreements necessary to implement the Plan, although the Parent and the

1 Debtor may waive the finality provision with respect to any appeal of the Commission's approvals.

2 Among other things, the Proposed Settlement Agreement provides for the terms and
3 conditions described below.

4 **A. REGULATORY ASSET.**

5 The Commission would establish a \$2.21 billion regulatory asset as a new, separate and
6 additional part of the Debtor's¹⁵ rate base that would be amortized on a mortgage-style basis over
7 nine (9) years beginning January 1, 2004. The regulatory asset would earn a return on equity of no
8 less than 11.22% for the life of the asset and, after the equity component of the Debtor's capital
9 structure reaches 52%, the authorized equity component of the regulatory asset would be no less
10 than 52% for the remaining life of the asset. The Commission would use its usual methodology for
11 tax-effecting the return on equity component of the regulatory asset in connection with establishing
12 the Debtor's revenue requirements for the regulatory asset. In the event that the Debtor is required
13 to pay income taxes on the regulatory asset any earlier than it is amortized, the Commission would
14 authorize the Debtor to establish a tax tracking account to record the difference between taxes that
15 would have been incurred on account of the regulatory asset had it been taxed as it was amortized,
16 and taxes on the regulatory asset plus interest imposed by federal or state tax authorities with respect
17 to any earlier recognition of taxable income. The tax tracking account would earn the authorized
18 rate of return provided for the regulatory asset and be amortized in rates over the greater of the
19 remaining life of the regulatory asset or five years.

20 The Debtor would commit to continue to cooperate with the Commission and the State
21 in seeking refunds from power generators and other energy suppliers. The net after-tax amount of
22 any refunds, claim offsets or other credits from generators or other energy suppliers relating to the
23 Debtor's power procurement costs that are actually realized by the Debtor in cash or by offset of
24 creditor claims in the Chapter 11 Case would reduce the outstanding balance and the remaining
25 amortization of the regulatory asset, dollar for dollar. Similarly, the net after-tax amount of any
26

27 ¹⁵As used in this section, the term "Debtor" includes the "Reorganized Debtor," as
28 appropriate.

1 consideration actually received by the Debtor that resolves the litigation in Public Utilities
2 Commission of California v. El Paso Natural Gas Co., et al., FERC Docket No. RP00-241-000 et al.,
3 and related state and federal court litigation, in settlement of damages claimed by the Debtor to have
4 caused it to incur high costs of electricity from March 1, 2000 to date, would be applied to reduce
5 the outstanding balance of the regulatory asset and remaining amortization of the regulatory asset,
6 dollar for dollar, provided that such a reduction is consistent with rules or orders of the Commission
7 relating to the consideration. See Section VIII.F. of this Disclosure Statement for a discussion of the
8 El Paso litigation and settlement.

9 Balances in the Debtor's TCBA as of the Effective Date and as determined by the
10 Commission in accordance with its Decision No. 01-03-082 would have no further impact on the
11 Debtor's retail electric rates and would not be subject to further Commission review, except for
12 verification of recorded balances, and the Debtor's current rates would be replaced by the retail
13 electric rates adopted pursuant to the Plan as of January 1, 2004, subject to certain exceptions.

14 To ensure that the Debtor receives the benefit of the Proposed Settlement Agreement
15 over the entire life of the regulatory asset, the Debtor's rate base for its utility retained generation, or
16 "URG," already established by the Commission pursuant to an April 2002 decision, would be
17 deemed just and reasonable and would not be subject to modification, adjustment or reduction,
18 except as necessary to reflect capital expenditures and any change in authorized depreciation;
19 provided, however, that the Commission would not be precluded from determining the
20 reasonableness of any capital expenditures made on URG after the Effective Date of the Plan. The
21 Commission would not in any way reduce or impair the value of the regulatory asset or the URG
22 rate base by taking the regulatory asset or the URG rate base, their amortization or earnings into
23 account when setting other revenue requirements of the Debtor and resulting rates. The
24 Commission also would not take the Proposed Settlement Agreement or the regulatory asset into
25 account in establishing the Debtor's authorized return on equity or capital structure, except as
26 specified in the Proposed Settlement Agreement.

27 In recognition of the importance of the Debtor's investment grade credit ratings in order
28 to provide safe and reliable service to customers and reduce the financing costs to customers of the

1 Debtor's immediate and future borrowing and capital expenditure needs, the Commission would
2 agree to act to facilitate and maintain company investment grade credit ratings for the Debtor. The
3 Commission also would timely act upon the Debtor's applications to collect in rates prudently
4 incurred costs (including return of and return on) of any new, reasonable investments in utility plant
5 and assets. The Commission would promptly adjust the Debtor's rates consistent with AB 57 and
6 SB 1976 and the Commission-DWR rate agreement to ensure that the Debtor's collection of fixed
7 transition amounts to service existing rate reduction bonds, regulatory asset amortization and return,
8 and base revenue requirements (e.g., electricity and natural gas distribution, URG, gas commodity
9 procurement, existing qualifying facility contract costs and associated return) is not impaired. The
10 Commission would not discriminate against the Debtor because of the Chapter 11 Case, the
11 Debtor's pending federal lawsuit against the Commission Commissioners to recover its previously
12 incurred costs of providing electric service from ratepayers under the federal filed rate doctrine, the
13 Proposed Settlement Agreement, the regulatory asset, or any other matters addressed or resolved by
14 the Proposed Settlement Agreement.

15 **B. RATEMAKING MATTERS.**

16 The Commission would maintain the Debtor's retail electric rates at current levels
17 through December 31, 2003. Thereafter, the Commission may adjust the Debtor's retail electric
18 rates prospectively consistent with the Proposed Settlement Agreement, the Plan, the Confirmation
19 Order and California law.

20 The Commission would set the Debtor's capital structure and authorized return on
21 equity in the Debtor's annual cost of capital proceedings in its usual manner; provided, however,
22 that, from January 1, 2004 until S&P has issued a long-term issuer credit rating for the Debtor of at
23 least A- or Moody's has issued an issuer rating for the Debtor of not less than A3, the authorized
24 return on equity would be no less than 11.22% per year and the authorized equity ratio for
25 ratemaking purposes would be no less than 52%, except that for 2004 and 2005, the authorized
26 equity ratio would equal the greater of the Forecast Average Equity Ratio (as defined in the
27 Proposed Settlement Agreement) or 48.6%.

1 **C. IMPLEMENTATION OF RATEMAKING.**

2 As soon as practicable after Commission approval of the Proposed Settlement
3 Agreement, the Debtor would be required to file an advice letter to implement all the rate and tariff
4 changes necessary to implement the Plan. The Commission would act promptly on the advice filing
5 and revised rates and tariffs and review and issue a decision promptly on the merits of any
6 application for rehearing of the approval of the advice filing. The Commission also would act
7 promptly on certain of the Debtor's pending ratemaking proceedings, including the Debtor's
8 pending 2003 general rate case.

9 **D. DIVIDEND PAYMENTS AND STOCK REPURCHASES.**

10 There would be no restrictions on the ability of the Parent's or the Debtor's respective
11 boards of directors to declare and pay dividends or repurchase common stock, other than the capital
12 structure and stand-alone dividend conditions contained in prior Commission decisions authorizing
13 the formation of the Parent as a holding company; provided, however, that the Debtor would agree
14 that it would not pay dividends on its common stock before July 1, 2004. The Commission's
15 jurisdiction and authority to enforce the holding company conditions are otherwise unaffected by the
16 Proposed Settlement Agreement.

17 **E. DWR CONTRACTS.**

18 The Commission could require the Debtor to accept assignment of, or assume legal and
19 financial responsibility for, the DWR Contracts previously allocated to the Debtor for operational
20 and administrative purposes only if, (i) S&P has issued a long-term issuer credit rating for the
21 Debtor after assumption and on a going-forward basis of not less than A and Moody's has issued an
22 issuer rating for the Debtor of not less than A2, (ii) the Commission first makes a finding that the
23 DWR Contracts being assumed or assigned are just and reasonable, and (iii) the Commission had
24 acted to ensure that the Debtor will receive full and timely recovery in retail electric rates of all such
25 contract costs over the life of the contracts without further review. The Commission would retain
26 the right to review the prudence of the Debtor's administration and dispatch of the DWR Contracts,
27 consistent with applicable law.
28

1 **F. HEADROOM REVENUES.**

2 The headroom (as defined in the Proposed Settlement Agreement), surcharge and base
3 revenues accrued or collected by the Debtor through December 31, 2003 would be the property of
4 the Debtor's Chapter 11 estate, and the Commission would agree that such revenues have been or
5 will be used for utility purposes, including to pay claims in the Chapter 11 Case, have been included
6 in the Debtor's retail electric rates consistent with state and federal law, and are not subject to
7 refund. The Proposed Settlement Agreement provides that if headroom revenues accrued by the
8 Debtor during 2003 are greater than \$875 million, pre-tax, the Debtor would refund the excess to
9 ratepayers, and if headroom revenues are less than \$775 million, pre-tax, the Commission would
10 allow the Debtor to collect the shortfall in rates.

11 **G. DISMISSAL OF RATE RECOVERY LITIGATION, AND CERTAIN OTHER**
12 **LITIGATION AND PROCEEDINGS.**

13 On or as soon as practicable after the later of the Effective Date or the date that
14 Commission approval of the Proposed Settlement Agreement is no longer subject to appeal, the
15 Debtor would dismiss with prejudice the Rate Recovery Litigation (as defined in the Plan) and
16 withdraw the Original PG&E Plan (described in Section VIII.A of this Disclosure Statement). In
17 exchange, before January 1, 2004, the Commission would establish and authorize the collection of
18 the regulatory asset and the URG rate base for its retained generation, and on or as soon as
19 practicable after the Effective Date, the Commission would resolve phase 2 of the pending annual
20 transition cost proceeding in which the Commission is reviewing the reasonableness of the Debtor's
21 energy crisis procurement costs, with no adverse impact on the Debtor's cost recovery as requested.

22 On or as soon as practicable after the later of the Effective Date of the Plan or the date
23 that Commission approval of the Proposed Settlement Agreement is no longer subject to appeal, the
24 Parent and the Debtor, on the one hand, and the Commission, on the other hand, would execute full
25 mutual releases and dismissals with prejudice of certain claims, actions or regulatory proceedings
26 arising out of or related in any way to the energy crisis or the implementation of AB 1890, including
27 the Commission's investigation into past holding company actions during the energy crisis (but only
28 as to past actions, not prospective matters). A complete list of the claims, actions and regulatory

1 proceedings to be so released and dismissed is set forth on Appendix C to the Proposed Settlement
2 Agreement.

3 **H. WITHDRAWAL OF APPLICATIONS IN CONNECTION WITH THE**
4 **ORIGINAL PG&E PLAN.**

5 The Parent and the Debtor have requested a stay of all proceedings before the FERC, the
6 NRC, the SEC and other regulatory agencies relating to approvals sought to implement the Original
7 PG&E Plan, and also to suspend all actions to obtain or transfer licenses, permits and franchises to
8 implement the Original PG&E Plan. The Parent and the Debtor have agreed that, promptly upon the
9 Effective Date, the Debtor and the Parent would withdraw or abandon all applications for these
10 regulatory approvals and related licenses, permits and franchises. A complete list of such
11 applications is set forth on Appendix D to the Proposed Settlement Agreement.

12 The Debtor and the Parent also would agree that for the life of the regulatory asset
13 established by the Proposed Settlement Agreement, neither they nor any of their affiliates or
14 subsidiaries will make any filing under Sections 4, 5 or 7 of the Natural Gas Act to transfer
15 ownership of or ratemaking jurisdiction over the Debtor's intrastate natural gas pipeline and storage
16 facilities, and to keep such natural gas pipeline and storage facilities subject to the regulation of the
17 Commission. In addition, the Debtor and the Parent would agree that the Commission has
18 jurisdiction to review and approve any proposal by the Debtor to dispose of property necessary or
19 useful in the performance of the Debtor's duties to the public as a public utility under California law.

20 **I. ENVIRONMENTAL MEASURES.**

21 The Debtor would implement the following environmental enhancement measures:

- 22 ? the Debtor would encumber with conservation easements or donate
23 approximately 140,000 acres of specific watershed and other lands to
24 public agencies or non-profit conservation organizations, and its
25 obligation to do so would continue beyond the nine-year term of the
26 Proposed Settlement Agreement;
- 27 ? the Debtor would create a California non-profit corporation to oversee
28 environmental enhancements associated with these lands and fund such
corporation with \$70 million over ten (10) years, although it would be
entitled to recover these payments in rates without further review;

- 1 ? the governing board of the non-profit corporation would develop a
2 conservation easement and land donation/disposition plan consistent with
3 Appendix E of the Proposed Settlement Agreement; and
- 4 ? the Debtor would create a non-profit corporation funded by shareholders
5 with \$15 million over five (5) years dedicated to support research and
6 investment in clean energy technology, primarily in the Debtor's service
7 territory.

8 Nothing in the environmental enhancement measures would affect any California state
9 agency's or entity's statutory authority. Similarly, the Debtor expects that its rates will continue to
10 cover the costs of property taxes and ordinary maintenance of owned lands as well as the costs of
11 compliance with all regulatory requirements applicable to the lands, including the licenses that apply
12 to lands within hydroelectric project boundaries. The land conservation commitment specifies that
13 any environmental enhancements to the land undertaken by the non-profit corporation may not
14 interfere with the Reorganized Debtor's or a joint licensee's hydroelectric operations, maintenance
15 or capital improvements, but this does not apply to activities that may be required by government
16 agencies pursuant to their regulatory authority. Nothing in Paragraph 17 or Appendix E of the
17 Proposed Settlement Agreement is intended to be or shall be construed as a waiver of sovereign
18 immunity by the state entities who may serve on the governing board of the Environmental
19 Enhancement Corporation.

20 While the Bankruptcy Court would have exclusive jurisdiction over any claim that the
21 Reorganized Debtor has failed to fulfill its obligations under the Plan, including the environmental
22 enhancement measures, any future disputes with the governing board of the non-profit corporation
23 would not be within the Bankruptcy Court's exclusive jurisdiction.

24 **J. WAIVER OF SOVEREIGN IMMUNITY.**

25 Under the Proposed Settlement Agreement, the Commission would waive all existing
26 and future rights of sovereign immunity, and all other similar immunities, as a defense in connection
27 with any action or proceeding concerning the enforcement of the Proposed Settlement Agreement,
28 the Plan or the Confirmation Order or other determination of the parties' rights under the Proposed
29 Settlement Agreement, the Plan or the Confirmation Order. The Commission also would consent to
30 the jurisdiction of any court or other tribunal or forum for such actions or proceedings including, but

1 not limited to, the Bankruptcy Court.¹⁶

2
3 **K. TERM AND ENFORCEABILITY.**

4 The Proposed Settlement Agreement would generally terminate nine years after the
5 Effective Date. The parties would agree that the Bankruptcy Court will have jurisdiction over the
6 parties for all purposes relating to enforcement of the Proposed Settlement Agreement, the Plan and
7 the Confirmation Order. The parties also would agree that the Proposed Settlement Agreement, the
8 Plan and any order entered by the Bankruptcy Court contemplated or required to implement the
9 Proposed Settlement Agreement or the Plan would be irrevocable and binding on the parties, and
10 enforceable under federal law, notwithstanding any contrary state law or future decisions or orders
11 of the Commission.

12 **L. TREATMENT OF CREDITORS.**

13 The Proposed Settlement Agreement contemplates the treatment of creditors and the
14 financing described in Section IX of this Disclosure Statement.

15 **VIII. LITIGATION**

16 The Debtor is a party to various lawsuits and administrative proceedings. Set forth
17 below is a summary of some of the material pending litigation and administrative proceedings
18 involving the Debtor.

19 **A. RATE RECOVERY LITIGATION.**

20 On November 8, 2000, the Debtor filed a lawsuit in the U.S. District Court for the
21

22 ¹⁶The State Entities represented by the California Attorney General contend that the
23 Commission's waiver of sovereign immunity in connection with the Proposed Settlement
24 Agreement does not apply to any other state agency or entity. The Proponents contend that the
25 Bankruptcy Court in its February 7, 2002 memorandum decision prior to the filing of the Plan
26 indicated a willingness to enjoin actual or threatened violations by the State or its agencies of a
27 confirmation order, as authorized under the Ex Parte Young doctrine. The Proponents further
28 contend that the State and the Commission have waived their ability to assert sovereign immunity in
this Chapter 11 Case (including with respect to the Plan and the relief sought in the Plan) through
their extensive participation in the Debtor's chapter 11 proceedings (as well as the Commission
through its express agreement to waive sovereign immunity in the Proposed Settlement Agreement).
The State Entities represented by the California Attorney General contend that they have not
waived sovereign immunity.

1 Northern District of California against the Commissioners of the Commission, asking the court to
2 declare that the federally tariffed wholesale power costs that the Debtor had incurred to serve its
3 customers are recoverable in retail rates under the federal filed rate doctrine and also asserting
4 claims under the Takings, Commerce and Due Process Clauses of the United States Constitution.
5 On January 29, 2001, the Debtor's lawsuit was transferred to the U.S. District Court for the Central
6 District of California where a similar lawsuit filed by Southern California Edison Company was
7 pending.

8 On May 2, 2001, the District Court dismissed the Debtor's amended complaint, without
9 prejudice to refile at a later date, on the ground that the lawsuit was premature since two
10 Commission decisions referenced in the complaint had not become final under California law.

11 On August 6, 2001, the Debtor refiled its complaint and thereby commenced the Rate
12 Recovery Litigation in the U.S. District Court for the Northern District of California, based on the
13 Debtor's belief that the Commission decisions referenced in the District Court's May 2, 2001 order
14 had become final under California law. On November 26, 2001, the case was transferred to U.S.
15 District Court Judge Vaughn Walker in the Northern District of California as a related case to the
16 Debtor's appeal from the bankruptcy court's denial of the Debtor's request for injunctive and
17 declaratory relief against the retroactive accounting order adopted by the Commission in March
18 2001.

19 The Debtor's complaint in the Rate Recovery Litigation alleges that the wholesale
20 power costs that the Debtor has prudently incurred are paid pursuant to filed tariffs that the FERC
21 has authorized and approved, and that under the U.S. Constitution and numerous court decisions
22 such costs cannot be disallowed by state regulators. The Debtor's complaint also alleges that to the
23 extent that the Debtor is denied recovery of these wholesale power costs by order of the
24 Commission, such action constitutes an unlawful taking and confiscation of the Debtor's property.
25 The Debtor argues that the Commission's decisions are preempted by federal law under the filed
26 rate doctrine, which requires the Commission to allow the Debtor to recover in full its reasonable
27 procurement costs incurred under lawful rates and tariffs approved by the FERC, a federal
28 governmental agency. The complaint also pleads claims under the Commerce Clause, Due Process

1 Clause, and Equal Protection Clause of the U.S. Constitution.

2 On April 18, 2002, the Debtor filed a motion for summary judgment requesting the court
3 to enter judgment in the first and second claims for relief pleaded in the complaint on the basis that
4 federal law requires the Commission to permit the Debtor to recover its wholesale procurement costs
5 incurred in FERC-tariffed markets. Also, on September 24, 2001, the Commissioners and TURN,
6 an intervenor in the Rate Recovery Litigation, filed motions to dismiss the Debtor's complaint, and
7 on April 18, 2002 filed motions for summary judgment asking the court to rule against the Debtor,
8 on its federal preemption claims as a matter of law. One of the principal grounds for the
9 Commissioners' and TURN's motions was that, by adopting a retroactive change in the accounting
10 mechanisms for recovery of transition and power procurement costs in March 2001, the
11 Commission had already allowed the Debtor to recover its wholesale procurement costs.

12 On July 25, 2002, the District Court issued an order denying the Commissioners' and
13 TURN's motions to dismiss the Rate Recovery Litigation, as well as motions for summary judgment
14 that had been filed by the Commissioners, the Debtor, and TURN. However, much of the District
15 Court's order is a discussion of the merits of the Debtor's federal preemption claims. The court
16 found that the filed rate doctrine applies to PG&E's case, stating: "in most instances today a utility
17 must purchase the power delivered to consumers pursuant to the rate filed with the appropriate
18 federal agency."

19 The court found, however, that the Debtor's preemption claims could not be decided on
20 summary judgment because two factual issues remained in dispute: the appropriate time period for
21 considering whether a net under-collection had occurred and the determination of which revenue
22 sources, within Constitutional bounds, may be applied against the Debtor's operating costs (which
23 included the question whether at the time of the energy crisis revenue was "available to sustain
24 PG&E's operations" and if not, whether the "unavailability was reasonable and not due to financial
25 mismanagement").

26 At an August 16, 2002 case management conference, the court adopted the pretrial and
27 trial schedule stipulated to by the parties, including a trial date set for June 9, 2003. On August 23,
28 2002, the defendants filed a Notice of Appeal from those portions of the July 25, 2002 order denying

1 defendants' motion to dismiss on Eleventh Amendment (sovereign immunity) and Johnson Act
2 grounds. (The Johnson Act prohibits the district courts from enjoining, suspending, or restraining
3 the operation of or compliance with any order affecting rates chargeable by a public Debtor and
4 made by a state administrative agency as long as certain conditions are met.) On September 4, 2002,
5 the Debtor filed a motion with the District Court seeking written certification that the Commission's
6 appeal of the July 25, 2002 order on Eleventh Amendment and Johnson Act grounds was frivolous.
7 On or about October 21, 2002, the District Court granted the Debtor's motion and certified the
8 Commission's appeal as frivolous, which allowed the District Court to retain jurisdiction to proceed
9 to trial while the Commission's appeal to the Ninth Circuit, or Ninth Circuit, was pending. On
10 November 21, 2002, the Ninth Circuit without discussion granted the Commission's motion to stay
11 the District Court proceedings pending the Commission's appeal of the District Court's July 25,
12 2002 order. As a consequence of the Ninth Circuit stay, the trial schedule previously set by the
13 District Court, including the June 9, 2003, trial date, is inoperative.

14 On January 8, 2003, the Debtor filed its Ninth Circuit brief in opposition to the
15 Commission's appeal, together with a motion asking the Ninth Circuit to expedite the hearing and
16 the decision on the appeal. On January 13, 2003, the Ninth Circuit notified the Debtor that a hearing
17 date for the appeal had been set for March 10, 2003. Briefing on the appeal has been completed, and
18 oral argument on the appeal has been heard.

19 Pursuant to the Proposed Settlement Agreement, the Debtor is required to dismiss the
20 Rate Recovery Litigation with prejudice as soon as practicable after the later of the Effective Date or
21 the date on which the Commission's approval of the Commission Settlement is no longer subject to
22 appeal. See Section VII above entitled "Summary of the Proposed Settlement Agreement" for more
23 information on the litigation.

24 **B. CALIFORNIA BUSINESS AND PROFESSIONS CODE SECTION 17200**
25 **LITIGATION.**

26 On January 10, 2002, the California Attorney General filed a complaint in the San
27 Francisco Superior Court, styled People of the State of California ex rel. Bill Lockyer, Attorney
28 General of the State of California v. PG&E Corporation; et al., Case No. CGC-02-403289, against

1 the Parent and the directors of the Parent and Debtor (“Defendants”) alleging that the Defendants
2 engaged in unfair or fraudulent business acts or practices in violation of California Business and
3 Professions Code Section 17200 (“§ 17200 Claims”). The Attorney General filed an amended
4 complaint on August 9, 2002 (“Attorney General Lawsuit”).

5 The Attorney General seeks injunctive relief, the appointment of a receiver, restitution
6 in an amount according to proof, civil penalties of \$2,500 against each defendant for each violation
7 of California Business and Professions Code Section 17200 and that the total penalty not be less
8 than \$500 million, and costs of suit.

9 On February 11, 2002, the City and County of San Francisco (the “CCSF”) filed an
10 almost identical complaint in San Francisco Superior Court styled City and County of San Francisco
11 v. PG&E Corporation, Case No. CGC-02-404453 (“CCSF Lawsuit”). The CCSF complaint
12 contains allegations against the Parent for conversion, unjust enrichment and violations of Section
13 17200 of the California Business and Professions Code (“§ 17200 Claims”). These claims are
14 similar, and in some instances practically identical, to the allegations contained in the Attorney
15 General Lawsuit.

16 CCSF also seeks injunctive relief, the appointment of a receiver, restitution in an amount
17 according to proof, and civil penalties of \$2,500 against each defendant for each violation of
18 California Business and Professions Code Section 17200.

19 On February 14, 2002, Cynthia Behr, an individual creditor in the Chapter 11 Case, filed
20 a complaint styled Behr v. PG&E Corporation, et al., Case No. CV-805274, in Santa Clara County
21 Superior Court (“Behr Lawsuit”). The Behr complaint contains allegations against the Parent that
22 are practically identical to the allegations contained in the Attorney General’s and CCSF’s Lawsuits.

23 Behr seeks a set-aside of \$10 million, other damages in an amount according to proof,
24 the appointment of a receiver, and other equitable relief.

25 The Parent (and the individual defendants in the Attorney General Lawsuit) removed all
26 three lawsuits to the bankruptcy court. The Plaintiffs in all three lawsuits filed motions to remand to
27 the state court for lack of jurisdiction. The bankruptcy court allowed the Parent (and the individual
28 defendants in the Attorney General Lawsuit) to file a consolidated memorandum of points and

1 authorities to support the opposition to the motions to remand.

2 The Bankruptcy Court filed its consolidated decision to the motions to remand on June
3 14, 2002. The Bankruptcy Court remanded the Attorney General’s Complaint, as amended, and
4 certain CCSF causes of action to state superior court, finding that the claims constituted non-
5 removable police and regulatory powers under 28 U.S.C. § 1452(a). The Bankruptcy Court retained
6 jurisdiction over, and declined to remand, CCSF’s unjust enrichment and conversion causes of
7 action and Behr’s fraudulent conveyance and Bulk Sales Law causes of action, as well as the “Plan
8 Claims,” as described by the Bankruptcy Court. The Bankruptcy Court equitably remanded Behr’s
9 other causes of action. Some of the claims retained by the Bankruptcy Court were omitted by the
10 parties asserting them. Certain claims asserted by the CCSF, including its unjust enrichment and
11 conversion claims, are still pending in the Bankruptcy Court but are inactive pending the outcome of
12 appeals and cross-appeals discussed below.

13 The remanded causes of action have been coordinated in the California Superior Court
14 for the City and County of San Francisco. Discovery is ongoing; no trial date has been set.

15 The Parent (and the individual defendants in the Attorney General Lawsuit) appealed the
16 Bankruptcy Court’s remand decision to the United States District Court for the Northern District of
17 California on the basis that, if the claims exist at all, they are property of the Debtor’s estate and
18 subject to the exclusive jurisdiction of the Bankruptcy Court. The Parent (and the individual
19 defendants in the Attorney General Lawsuit) allege, among other things, that all of the remanded
20 causes of action should have been retained in the Bankruptcy Court because, if they exist at all, they
21 are property of the Debtor’s estate, and subject to exclusive Bankruptcy Court jurisdiction.

22 The Attorney General cross-appealed the denial of its Eleventh Amendment claim.
23 CCSF cross-appealed in the same court alleging, based on various arguments, that all of the causes
24 of action should have been remanded to state court.

25 The appeals and cross-appeals have been fully briefed and were argued before the
26 United States District Court for the Northern District of California on July 24, 2003.

27 **C. ATTORNEY GENERAL SEC PETITION.**

28 In addition, the Attorney General has filed a petition with the SEC seeking revocation of

1 the Parent's exemption from the Public Utility Holding Company Act of 1935 ("PUHCA"). The
2 Parent filed a response. The SEC has not issued any decision on the matter.

3 **D. COMPRESSOR STATION CHROMIUM LITIGATION.**

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

24 There are now approximately 1,280 plaintiffs in the Chromium Litigation with claims
25 against the Debtor. Each of the complaints alleges personal injuries and seeks compensatory and
26 punitive damages in an unspecified amount arising out of alleged exposure to chromium
27 contamination in the vicinity of the Debtor's gas compressor stations located at Kettleman and
28 Hinkley, and the area of California near Topock, Arizona. The plaintiffs include current and former

1 employees of the Debtor and their relatives, residents in the vicinity of the compressor stations and
2 persons who visited the gas compressor stations. The plaintiffs also include spouses or children of
3 these plaintiffs who claim loss of consortium or wrongful death.

4 The discovery referee has set the procedures for selecting trial test plaintiffs and
5 alternates in the Aguayo, Acosta and Aguilar cases (the "Aguayo Litigation"). Ten (10) of these
6 trial test plaintiffs were selected by plaintiffs' counsel, seven (7) plaintiffs were selected by defense
7 counsel and one (1) plaintiff and two (2) alternates were selected at random. Although a date for the
8 first test trial in the Aguayo Litigation was set for July 2, 2001, in Los Angeles County Superior
9 Court, the Chapter 11 Case automatically stayed all proceedings.

10 On March 27, 2002, the seven plaintiffs in the Fordyce case served their lawsuits on the
11 Debtor. The plaintiffs have all filed timely proofs of claim in the Chapter 11 Case.

12 In the Adams case, after a hearing on July 17, 2002, the state court dismissed 35
13 plaintiffs with prejudice because their claims are barred by the statute of limitations. The state court
14 dismissed another 65 plaintiffs without prejudice, so these plaintiffs may attempt to plead that their
15 claims are not barred by the statute of limitations. 30 of these plaintiffs filed a Fourth Amended
16 Complaint on October 16, 2002. The other 35 plaintiffs who were given leave to amend have been
17 dismissed with prejudice for failure to amend.

18 Prior to the Petition Date, the Debtor was responding to the complaints that were served
19 and asserting affirmative defenses. As of the Petition Date, the Debtor had filed thirteen (13)
20 summary judgment motions challenging the claims of the trial test plaintiffs in the Aguayo
21 Litigation and completed discovery of plaintiffs' experts. Plaintiffs' discovery of the Debtor's
22 experts was underway. Plaintiffs are completing discovery of the Debtor's experts and of related
23 issues, and four of the 13 summary judgment motions are scheduled for hearing in 2003. At a status
24 conference on March 17, 2003, the Los Angeles Superior Court scheduled a trial of eighteen (18)
25 test cases to commence in March 2004. At this stage of the proceedings and the claims objection
26 process, there is substantial uncertainty concerning the claims alleged, and the Debtor is attempting
27 to gather information concerning the alleged type and duration of exposure, the nature of injuries
28 alleged by individual plaintiffs, and the additional facts necessary to support its legal defenses.

1 Approximately 1,260 individuals have filed proofs of claim in this Chapter 11 Case
2 (nearly all by plaintiffs in the Chromium Litigation) asserting that exposure to chromium at or near
3 the compressor stations has caused personal injuries, wrongful death or related damages.
4 Approximately 1,035 claimants have filed proofs of claim requesting an aggregate amount of
5 approximately \$580 million and another approximately 225 claimants have filed claims for an
6 “unknown amount.” On November 14, 2001, the Debtor filed its Omnibus Objections to Chromium
7 Claims and its Motion to Certify and Transfer the Chromium Claims to the Federal District Court.
8 On January 8, 2002, the Bankruptcy Court issued a Memorandum of Decision denying the Debtor’s
9 Motion to Certify and Transfer the Chromium Claims to Federal District Court, granting the
10 Claimants’ Motion for Abstention and granting the Claimants’ Motion for Relief from Stay. The
11 Memorandum of Decision required the parties to prepare orders that will lift the automatic stay and
12 allow the state court lawsuits to proceed for those individuals who timely filed Claims in the
13 Chapter 11 Case and filed state court lawsuits prior to the Petition Date. Orders granting such relief
14 from stay have been entered by the Bankruptcy Court.

15 As set forth in the objections to the Chromium Litigation Claims, the Debtor’s position
16 is that all of the Chromium Litigation Claims should be disallowed because they are legally and
17 factually deficient. The claimants cannot establish that exposure to “chrome six” from the Debtor
18 caused their alleged injuries and will be unable to present admissible scientific evidence that
19 exposure to environmental (as opposed to occupational) levels of chrome six can cause the massive
20 list of ailments they claim. First, the medical and scientific literature does not support the
21 conclusion that ingestion of chrome six through drinking water causes any type of cancer or other
22 serious disease. For example, the EPA Office of Water has concluded: “There is no evidence that
23 chromium in drinking water has the potential to cause cancer from lifetime exposure in drinking
24 water.” EPA Office of Water: Drinking Water and Health, Technical Fact Sheet On: Chromium at
25 1. In addition, a “blue ribbon” panel of distinguished scientists created by the California Office of
26 Environmental Health and Hazard Assessment (“OEHHA”) to review the scientific literature “found
27 no basis in either the epidemiological or animal data published in the literature for concluding that
28 orally ingested Cr(VI) [chrome six] is a carcinogen.” OEHHA Chromate Toxicity Review

1 Committee, Scientific Review of Toxicological, and Human Health Issues Related to the
2 Development of a Public Health Goal for Chromium (VI), Aug. 31, 2001. Nor does the medical and
3 scientific literature support any claim that exposure to environmental levels of airborne chromium
4 causes the illnesses claimed. As the OEHHA panel of scientists concluded after reviewing the
5 scientific literature, “[t]aken together, the epidemiologic data on [chrome six] exposure from
6 environmental sources (as opposed to generally much higher occupational exposures) provide no
7 support for a causal association of exposure to [chrome six] and overall or site-specific cancer
8 mortality for the general public.” Id. at 19-20.

9 Second, the Chromium Litigation Claims are procedurally and legally deficient. Most,
10 if not all, of the Chromium Litigation Claims are untimely. The first lawsuits for alleged exposure
11 to chromium from the Debtor were filed in 1994. The Chromium Litigation Claims are barred
12 because Claimants knew, or should have known, of the basis of their Claims well over one (1) year
13 before they filed the pending state court lawsuits or Claims at issue. See McKelvey v. Boeing North
14 American Inc., 74 Cal. App. 4th 151, 160 (1999). In addition, the Chromium Litigation Claims filed
15 by current or former employees of the Debtor are further deficient because workers’ compensation is
16 the exclusive remedy to resolve such Claims. Moreover, the grossly inflated damages asserted are
17 not substantiated by the proofs of claim filed. Finally, the Claims are also inflated because they
18 incorrectly seek to recover punitive damages against the Debtor-in-Possession for the use of
19 chromium water treatment products that ceased more than fifteen (15) years ago.

20 For accounting purposes, the Debtor reserved \$160 million for the Chromium Litigation
21 as described in the Plan. However, for all of the reasons set forth in the objections and summarized
22 above, it is the Debtor’s position that the complaints in the Chromium Litigation are subject to legal
23 and factual defenses, and that the Chromium Litigation Claims are not valid claims. While all
24 Chromium Litigation Claims are Disputed Claims, the Chromium Litigation Claims are part of
25 Class 8 under the Plan and therefore are accorded pass-through treatment under the Plan.

26 **E. BFM CONTRACT SEIZURE LITIGATION.**

27 On February 5, 2001, the Governor, acting under California’s Emergency Services Act,
28 commandeered the Debtor’s block forward market (“BFM”) contracts for the benefit of the State.

1 The seized BFM contracts require the counterparties to deliver specified MW blocks of electricity
2 during peak hours throughout 2001 at agreed-upon prices. The Debtor filed an administrative claim
3 with the California Victim Compensation and Government Claims Board based on the Governor's
4 seizure of the BFM contracts. Southern California Edison (whose BFM contracts were
5 commandeered on or about February 2, 2001), the PX (through the PX Participants' Committee
6 appointed in the PX's bankruptcy case) and twenty-nine (29) PX participants also filed
7 administrative claims related to the Governor's seizure of the BFM contracts. Southern California
8 Edison's claim was subsequently resolved as part of a broader settlement with the State of
9 California. Following certain proceedings on the claims before the Board, on December 10, 2001,
10 the Debtor and the PX Participants' Committee each filed a writ of mandate in Sacramento Superior
11 Court seeking to terminate the Board proceeding for lack of jurisdiction and also requesting a stay of
12 the board proceedings until such time as the writ could be heard. In February 2002, the Sacramento
13 Superior Court determined that the writs were related to the coordinated cases (discussed below) and
14 assigned the writs to Honorable James T. Ford. The writs were heard before Judge Ford on
15 March 1, 2002. On July 16, 2001, the Debtor also filed a complaint against the State of California in
16 San Francisco Superior Court to recover the value of the seized BFM contracts alleging that the
17 State's seizure of the contracts was an inverse condemnation. The PX and a PX participant, Reliant
18 Energy, filed similar suits against the State in Los Angeles County Superior Court. The State has
19 filed motions to dismiss the three complaints arguing that the plaintiffs have not joined all
20 indispensable parties and that the parties have not fully exhausted administrative remedies.
21 Subsequently, the State filed an action for declaratory relief in Sacramento Superior Court that
22 sought adjudication regarding certain aspects of the State's seizure of the BFM contracts. The PX
23 filed with the California Judicial Council a motion to coordinate the various Superior Court actions.
24 As part of a larger stipulation, all parties, including the State, agreed to coordination of the
25 proceedings. On October 12, 2001 the Los Angeles County Superior Court judge ruled that
26 Sacramento Superior Court is the appropriate venue for the coordinated proceedings. The
27 coordinated cases were assigned to Judge Ford, who held a first case management conference on the
28 cases on February 15, 2002. On March 11, 2002, Debtor filed an amended complaint adding a cause

1 of action under the California Emergency Services Act.

2 In March 2002, the State demurred to Debtor's cause of action for inverse condemnation
3 under the California constitution. The State also demurred to this cause of action in the complaints
4 filed by PX and Reliant Energy. After two rounds of briefing and two hearings, Judge Ford denied
5 the State's demurrer on July 26, 2002. On August 30, 2002, the State moved for a six month stay of
6 all proceedings in order to await developments in actions pending before the FERC as well as this
7 bankruptcy proceeding. Judge Ford granted the State's request. Judge Ford subsequently granted a
8 request for a 90-day stay, and the Court granted an additional continuation of the stay to
9 accommodate Judge Ford's schedule. As continued, the stay is set to expire on July 30, 2003. A
10 status conference statement is due from all parties on July 23, 2003 and a status conference hearing
11 has been tentatively scheduled for July 30, 2003. No discovery has been conducted thus far in this
12 case.

13 **F. EL PASO SETTLEMENT.**

14 On March 21, 2003, the Debtor, along with a number of other parties, entered into a
15 memorandum of understanding ("MOU") with El Paso Natural Gas Company, its parent corporation
16 and affiliates (collectively, "El Paso") to settle claims against El Paso relating to the sale or delivery
17 of natural gas and/or electricity to or in the western United States from September 1, 1996 to March
18 20, 2003, including claims that El Paso took actions that resulted in artificially inflated gas prices
19 during the California energy crisis of 2000 and 2001. Since the MOU was signed the parties have
20 been negotiating a complex settlement agreement to implement the MOU. On June 26, 2003 a
21 comprehensive Master Settlement Agreement ("MSA") was signed, which resolves complaints
22 against El Paso in both state and federal court as well as at the Federal Energy Regulatory
23 Commission (FERC). The MSA provides for the following:

24 1. Payment by El Paso of approximately \$1.6 billion in consideration over the next 20
25 years as follows:

26 (i) on or before closing, El Paso will deposit \$2 million into the escrow account from a
27 pool of funds set up for bonus payment to El Paso officers. On the later of the execution of the
28 settlement agreement and the execution of an escrow agreement, El Paso will deposit \$100 million

1 into the escrow account. The price of the original DWR contract will be reduced on a pro rata basis
2 over the remaining term of the contract, effective as of the execution of the settlement agreement, by
3 \$125 million.

4 (ii) 26,371,308 shares of El Paso common stock (at the current share price, worth
5 approximately \$227 million based on the June 16, 2002 closing price of El Paso common stock) will
6 be sold into the market by El Paso, at its cost, at the direction of the settling claimants at any time
7 after El Paso's shelf registration becomes effective with the SEC.

8 (iii) Within 150 days of the execution of the MSA, El Paso will deposit into the escrow
9 account an additional \$250 million. This amount represents the net present value of (and is in lieu
10 of) the \$440 million cash stream payable in annual installments over 20 years that was contemplated
11 by the MOU.

12 (iv) In addition, El Paso shall pay \$45 million in cash annually over 20 years (\$900
13 million undiscounted future value). This replaces El Paso's obligation in the MOU to deliver \$900
14 million nominal value of gas over 20 years. If El Paso becomes investment grade at any time during
15 the first 15 years, at the option of the settling claimants, the amount of each annual cash payment
16 will be recalculated so as to amortize the remaining amount due over 15 years instead of 20 years.
17 The amortization will not revert to 20 years if El Paso thereafter becomes non-investment grade.
18 The MSA also contains terms governing prepayment.

19 (v) El Paso will secure the obligations with oil and gas reserves with a value equal to
20 130% (a 1.3 to 1 coverage ratio) of the net present value of the obligations at execution of the MSA.
21 Provision will be made for delivering letters of credit or other collateral acceptable to the settling
22 claimants and to any applicable rating agency (if the obligations have been monetized).

23 2. El Paso agrees to certain "structural remedies" to prevent any future manipulation of the
24 California gas market, including guarantees to make physically available the capacity to deliver
25 3,290 MMcf/day of gas to California and clarifying certain capacity recall rights for PG&E. The
26 structural remedies can be enforced in Federal District Court through a special master, except on
27 issues that are within the exclusive jurisdiction of FERC, and as to these issues enforcement will lie
28 with FERC.

1 3. All claims asserted by all parties for the period September 1, 1996 to March 20, 2003
2 are released, including El Paso's bankruptcy claim against PG&E. The release does not cover
3 claims asserted by PG&E against other parties in various regulatory proceedings, such as the FERC
4 Refund Proceeding and the 390 QF Proceeding at the Commission (where PG&E is seeking refunds
5 of excessive energy payments made to QFs during the energy crisis (including El Paso
6 owned/controlled QFs).

7 4. In addition to the settlement with El Paso, the settling claimants also agreed on
8 allocation of and administration of the settlement proceeds. The key elements of the allocation
9 agreement are as follows:

10 (i) All consideration is being divided pro rata based on calculation of the "damages"
11 suffered by each party;

12 (ii) PG&E will receive approximately 6% (currently estimated at \$81 million) of the
13 total consideration for damages incurred as a result of gas purchases and approximately 16%
14 (currently estimated at \$216.7 million) of the total consideration for damages as a result of
15 electricity purchases. The present value of such consideration, based on expected El Paso payment
16 dates, is approximately \$60 million for the core gas damages and \$160 million for electricity
17 damages (such present value calculated by applying a discount rate of approximately 7.5%).

18 (iii) The Commission will initiate an Order Instituting Rulemaking (OIR) to determine
19 how the El Paso settlement proceeds should be allocated among various classes of customers, and
20 the refund and accounting mechanisms for PG&E's portion of the proceeds. On July 10, 2003, the
21 Commission issued an OIR with respect to such allocation and related mechanisms.

22 Further, the DWR (CERS) is allocated approximately 33% (estimated at \$485 million,
23 nominally) for damages as a result of electricity purchases, which include the reduced price of its
24 contracts with El Paso. In the Allocation Agreement, all consideration received by the DWR shall
25 be used to reduce the DWR's revenue requirement, and the allocation of such reduction among
26 utilities shall be determined by the Commission.

27 The Debtor intends to seek the Bankruptcy Court's approval of the MSA pursuant to
28 Bankruptcy Rule 9019.

1 **G. PENDING EXPRESS PREEMPTION APPEAL.**

2 To accomplish the restructuring contemplated by the Original PG&E Plan, the PG&E
3 Proponents sought as part of their Original Plan a determination that Section 1123 of the Bankruptcy
4 Code expressly preempts otherwise applicable nonbankruptcy law in certain limited areas of state
5 and local law: namely, that “pursuant to Section 1123 of the Bankruptcy Code, the approval of any
6 California state and local Governmental Entity, including, but not limited to, the CPUC, shall not be
7 required in order to, among other things, transfer or operate the [restructured entity’s] Assets . . . or
8 to otherwise effectuate the Restructuring Transactions.” See generally December 19, 2001 First
9 Amended Plan of Reorganization (Docket No. 3895) art. VII, §7.1(k) (“Regulatory Approvals” for
10 ETrans); id. art. VII, §7.2(i) (“Regulatory Approvals” for GTrans); id. art. VII, §7.3(j) (“Regulatory
11 Approvals” for Gen).

12 On February 7, 2002, the Bankruptcy Court issued a Memorandum Decision rejecting the
13 PG&E Proponents’ position regarding the express preemption of state law under Section 1123(a)(5)
14 of the Bankruptcy Code (the “February 7 Decision”) (Docket No. 4710), and thereafter entered an
15 order on March 18, 2002 disapproving the First Amended Disclosure Statement for the reasons set
16 forth in its February 7 Decision.¹⁷ The PG&E Proponents thereafter appealed the express
17 preemption aspect of the March 18, 2002 order to the United States District Court for the Northern
18 District of California (the “District Court”).

19 On August 30, 2002, the District Court reversed the Bankruptcy Court’s express preemption
20 ruling and directed that the matter be remanded for further proceedings consistent with its ruling.
21 Judgment was entered on September 19, 2002, and the Commission and several other parties
22 thereafter appealed the District Court’s decision to the United States Court of Appeals for the Ninth
23 Circuit (and sought discretionary review of the District Court’s ruling pursuant to 28 U.S.C. Section
24 1292(b), which the PG&E Proponents did not oppose) (such consolidated proceedings are
25 collectively referred to as “the appeal”). The appeal has been fully briefed and it was argued before

26 _____
27 ¹⁷The Plan and Disclosure Statement were amended to address the deficiency identified by the
28 Bankruptcy Court, without prejudice to the Debtor’s position that the Plan, in its original form,
could have been confirmable.

1 a panel of the Ninth Circuit on May 14, 2003.

2 On July 8, 2003, the PG&E Proponents filed a notice advising the Ninth Circuit of the
3 Proposed Settlement Agreement and asking the Ninth Circuit on that basis to stay the pending
4 appeal. The appellants have opposed the motion and have asked the Ninth Circuit panel to proceed
5 to a decision. The Ninth Circuit has not yet ruled on the motion to stay the appeal. However the
6 Ninth Circuit rules on that motion or on the merits of the appeal itself, neither the Proposed
7 Settlement Agreement nor the Plan are conditioned upon any disposition in the pending appeal.

8 IX. THE PLAN OF REORGANIZATION

9 A. CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY 10 INTERESTS.

11 The Plan classifies Claims and Equity Interests separately and provides different
12 treatment for different Classes of Claims and Equity Interests in accordance with the provisions of
13 the Bankruptcy Code. As described more fully below, the Plan provides, separately for each Class,
14 that holders of certain Claims and Equity Interests will receive various amounts and types of
15 consideration, thereby giving effect to the different rights of holders of Claims and Equity Interests
16 in each Class.

17 The Debtor will pay all Allowed Claims in full. Allowed Claims shall include the
18 amounts owed with respect to the period prior to the Petition Date and applicable interest accrued
19 and unpaid during such period. Except as otherwise described herein and provided in the Plan,
20 holders of Allowed Claims will also be paid in Cash accrued and unpaid Post-Petition Interest on
21 such Allowed Claims. Except as otherwise provided in the Plan, including Exhibit B to the Plan,
22 any Post-Petition Interest shall be calculated and paid at the lowest non-default rate in accordance
23 with the terms specified in the applicable statute, indenture or instrument governing such Allowed
24 Claim or, if no such instrument exists, or if the applicable instrument does not specify a non-default
25 rate of interest, Post-Petition Interest will be calculated and paid on such Allowed Claim at the
26 Federal Judgment Rate. Except as provided under applicable non-bankruptcy law or certain
27 agreements with the Debtor approved by the Bankruptcy Court and which are incorporated into and
28 made a part of the Plan, Post-Petition Interest will not be paid on the following Allowed Claims:

1 Administrative Expense Claims; Environmental, Fire Suppression, Pending Litigation and Tort
2 Claims, and Workers' Compensation Claims.

3 Pursuant to an order entered by the Bankruptcy Court on April 9, 2001, authorizing the
4 interim use of Cash collateral and an Order entered by the Bankruptcy Court on May 9, 2001
5 approving a Stipulation for the use of Cash collateral between the Debtor and the trustee under the
6 Mortgage, as subsequently amended, the Debtor has paid and will continue to pay Post-Petition
7 Interest to the holders of Allowed Claims in Classes 3a, 3b and 4a.

8 Pursuant to an order entered by the Bankruptcy Court on June 17, 2002, approving the
9 Debtor's execution and performance under an agreement with the Letter of Credit Issuing Banks
10 entitled "First Amended and Restated Summary of Terms with Respect to Forbearance and
11 Proposed Revised Treatment of Letter of Credit Bank Claims in the Plan of Reorganization" (the
12 "LC Bank Agreement"), the Debtor has paid, and subject to certain terms and conditions as set forth
13 in the LC Bank Agreement may continue to, pay to each Letter of Credit Issuing Bank (A) certain
14 increased letters of credit fees as hereinafter described, (B) certain reasonable fees and expenses of
15 professionals retained by the Letter of Credit Issuing Banks, and (C) reimbursement for certain
16 amounts drawn on the Letter of Credit Issuing Bank's respective Letter of Credit for the payment of
17 interest on the related series of Letter of Credit Backed PC Bonds to the extent provided in the
18 respective Reimbursement Agreement. Additionally, pursuant to the terms of the LC Bank
19 Agreement, the Debtor has agreed, among other things and subject to certain conditions, to pay to
20 Deutsche Bank AG New York Branch an agency fee in the amount of \$250,000, which fee was paid
21 by the Debtor on June 18, 2002. See Section IX.A.13 of this Disclosure Statement for more
22 information regarding the LC Bank Agreement.

23 In addition, pursuant to the Settlement Order, the Debtor will make payments of Post-
24 Petition Interest accruing on and after the applicable Initial Calculation Date¹⁸ and through the last

25 _____
26 ¹⁸February 28, 2002 is the Initial Calculation Date for holders of Allowed Claims in Class 5
27 for Senior Indebtedness, holders of Allowed Southern San Joaquin Valley Power Authority Bond
28 Claims and holders of Allowed Claims in Classes 4c, 4f, 4g and 9; June 30, 2002 is the Initial
Calculation Date for the remaining holders of Allowed Claims in Class 5 and the holders of Allowed
Claims in Classes 1, 2, 6 and 7.

1 day of the last calendar quarter ending prior to the Effective Date in arrears in quarterly installments
2 (or in the case of such first quarter following the Initial Calculation Date for holders of Allowed
3 Claims for which February 28, 2002 is the Initial Calculation Date, the four-month period from
4 March 1, 2002 to June 30, 2002) as follows: (x) on the first Business Day of the next calendar
5 quarter to the holders of Allowed Claims in Class 5 for Senior Indebtedness, the holders of Allowed
6 Southern San Joaquin Valley Power Authority Bond Claims and the holders of Allowed Claims in
7 Classes 4c, 4f, 4g and 9, and (y) within thirty (30) days following the end of the calendar quarter, to
8 the remaining holders of Allowed Claims in Class 5 and the holders of Allowed Claims in Classes 1,
9 2, 6 and 7. Any Post-Petition Interest that accrues during the period commencing on the first day of
10 the calendar quarter in which the Effective Date occurs and ending on the Effective Date will be
11 paid on the Effective Date. Pursuant to an Order entered by the Bankruptcy Court on November 26,
12 2002 approving a stipulation between the Debtor and MBIA, the Debtor continues to pay Post-
13 Petition Interest to the holders of Allowed MBIA Claims (Class 4c), but beginning December 1,
14 2002, converted to semi-annual payments of Post-Petition Interest on June 1 and December 1 of
15 each year in accordance with the terms of the applicable loan documents.

16 As to any Disputed Claim, within ten (10) days after a Final Order or the filing of a
17 stipulation making such Disputed Claim an Allowed Claim, the holder of such Allowed Claim shall
18 receive all Pre-Petition Interest and, to the extent payable, Post-Petition Interest accrued and payable
19 on such Allowed Claim pursuant to the Plan as of such date. See Section IX.D of this Disclosure
20 Statement for more information regarding the timing of distributions under the Plan.

21 The Debtor is authorized to pay, and has paid or will pay, all fees and expenses of the
22 holders of Senior Indebtedness who are parties to the Settlement and Support Agreement, the Bond
23 Trustees, the trustees under the Mortgage, and Debtor's various indentures, including, but not
24 limited to, the trustee under the Southern San Joaquin Valley Power Authority Agreement, the
25 Issuer of the PC Bonds, and their respective professionals, and Bank of America, N.A., in its
26 capacity as administrative agent under the Revolving Line of Credit (including such administrative
27 agent's attorneys' fees), pursuant to a procedure that provides for twenty (20) days' notice to the
28 Debtor, its counsel, counsel to the Committee and the U.S. Trustee, which parties thereby are

1 afforded an opportunity to object to the reasonableness of such fees and expenses. Any other unpaid
2 fees and expenses accrued through the Confirmation Date of any of the Bond Trustees and trustees
3 under the Mortgage and various indentures shall be paid by the Debtor within ten (10) days after the
4 Confirmation Date, to the extent allowed by law and any underlying agreement.

5 **1. Administrative Expense Claims.**

6 Administrative Expense Claims are Claims constituting a cost or expense of
7 administration of the Chapter 11 Case allowed under sections 503(b) and 507(a)(1) of the
8 Bankruptcy Code. Such Claims include all actual and necessary costs and expenses of preserving
9 the estate of the Debtor, all cure amounts owed in respect of leases and contracts assumed by the
10 Debtor, all compensation and reimbursement of expenses to the extent Allowed by the Bankruptcy
11 Court under sections 330 or 503 of the Bankruptcy Code, and any fees or charges assessed against
12 the estate of the Debtor under section 1930 of chapter 123 of title 28 of the United States Code;
13 provided, however, that Administrative Expense Claims do not include Ordinary Course Liabilities
14 (as described below).

15 Except to the extent that any Entity entitled to payment of any Allowed Administrative
16 Expense Claim agrees to a less favorable treatment, and except as otherwise provided in the Plan,
17 including Section 2.2 of the Plan (with respect to Professional Compensation and Reimbursement
18 Claims) and Section 6.4 of the Plan (with respect to cure amounts owed in respect of executory
19 contracts and unexpired leases assumed by the Debtor-in-Possession), (i) each holder of an Allowed
20 Administrative Expense Claim arising on or before the Confirmation Date shall receive Cash in an
21 amount equal to such Allowed Administrative Expense Claim on the later of the Effective Date and
22 the date such Administrative Expense Claim becomes an Allowed Administrative Expense Claim, or
23 as soon as practicable thereafter, or on such other date as may be ordered by the Bankruptcy Court;
24 and (ii) each holder of an Allowed Administrative Expense Claim arising after the Confirmation
25 Date and on or before the Effective Date shall receive Cash in an amount equal to such Allowed
26 Administrative Expense Claim on the later of the date that is 90 days after the Effective Date and the
27 date such Administrative Expense Claim becomes an Allowed Administrative Expense Claim, or as
28 soon as practicable thereafter, or on such other date as may be ordered by the Bankruptcy Court.

1 Except as provided under applicable non-bankruptcy law or certain agreements with the Debtor
2 approved by the Bankruptcy Court and which are incorporated into and made a part of the Plan,
3 Post-Petition Interest will not be paid on Allowed Administrative Expense Claims.

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

5 Professional Compensation and Reimbursement Claims are Administrative Expense
6 Claims for the compensation of professionals and reimbursement of expenses incurred by such
7 professionals, the Committee and members of the Committee pursuant to sections 330(a), 503(b)(2),
8 503(b)(3), 503(b)(4) and 503(b)(5) of the Bankruptcy Code. All payments to professionals for
9 Professional Compensation and Reimbursement Claims will be made in accordance with the
10 procedures established by the Bankruptcy Code, the Bankruptcy Rules and the Bankruptcy Court
11 relating to the payment of interim and final compensation for services rendered and reimbursement
12 of expenses. The Bankruptcy Court will review and determine all applications for compensation for
13 services rendered and reimbursement of expenses.

14 Pursuant to the Plan, each holder of a Professional Compensation and Reimbursement
15 Claim (a) shall file by no later than the date that is ninety (90) days after the Confirmation Date or
16 such other date as may be fixed by the Bankruptcy Court a final application for the allowance of
17 compensation for services rendered and reimbursement of expenses incurred, and (b) if granted,
18 such an award by the Bankruptcy Court shall be paid in full in such amounts as are Allowed by the
19 Bankruptcy Court (i) on the date such Professional Compensation and Reimbursement Claim
20 becomes an Allowed Professional Compensation and Reimbursement Claim, or as soon as
21 practicable thereafter or (ii) upon such other terms as may be mutually agreed upon between such
22 holder of an Allowed Professional Compensation and Reimbursement Claim and the Debtor.

23 **3. Priority Tax Claims.**

24 Priority Tax Claims are Claims for taxes entitled to priority in payment under section
25 507(a)(8) of the Bankruptcy Code.

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

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

4 **4. Ordinary Course Liabilities.**

5 Ordinary Course Liabilities are (i) liabilities incurred in the ordinary course of business
6 by the Debtor-in-Possession, including, but not limited to, actual and necessary costs and expenses
7 of operating the business of the Debtor-in-Possession, any indebtedness or obligations incurred or
8 undertaken by the Debtor-in-Possession in connection with the conduct of its business, liabilities
9 arising under loans or advances to or other obligations incurred by the Debtor-in-Possession, and
10 real and personal property taxes and franchise fees; (ii) any Claims against the Debtor-in-Possession
11 constituting a cost or expense of administration of the Chapter 11 Case under sections 503(b) and
12 507(a)(1) of the Bankruptcy Code arising on or after sixty (60) days prior to the Effective Date,
13 other than Professional Compensation and Reimbursement Claims; and (iii) all cure amounts owed
14 in respect of executory contracts and unexpired leases assumed by the Debtor-in-Possession arising
15 on or after sixty (60) days prior to the Effective Date.

16 Ordinary Course Liabilities shall be paid in full and performed by the Debtor in the
17 ordinary course of business in accordance with the terms and subject to the conditions of any
18 agreements governing, instruments evidencing or other documents relating to such transactions and
19 pursuant to applicable law, without the necessity of the filing of an Administrative Expense Claim.
20 Except as provided under such agreements, instruments and documents or applicable non-
21 bankruptcy law, Post-Petition Interest will not be paid on any Ordinary Course Liabilities. Any
22 disputed Ordinary Course Liabilities shall be determined, resolved, or adjudicated, as the case may
23 be, in a manner as if the Chapter 11 Case had not been commenced (except that, under sections 365
24 and/or 1123(b)(2) of the Bankruptcy Code, contractual provisions, accelerations and defaults
25 eliminated or rendered unenforceable by such sections shall remain eliminated or unenforceable),
26 and shall survive the Effective Date as if the Chapter 11 Case had not been commenced. In the
27 event of a disputed Ordinary Course Liability, the Debtor shall be liable in the amount or in the
28 manner determined by a Final Order or by a binding award, agreement or settlement; provided,

1 however, that the Debtor shall preserve all rights and defenses respecting any Ordinary Course
2 Liability that exists under applicable law. All disputed Ordinary Course Liabilities shall be
3 determined and liquidated under applicable non-bankruptcy law in the administrative or judicial
4 tribunal in which they are pending as of the Effective Date or, if no such action is pending on the
5 Effective Date, in any administrative or judicial tribunal of appropriate jurisdiction. In light of the
6 unimpaired pass-through treatment of Ordinary Course Liabilities under the Plan, the Reorganized
7 Debtor waives the discharge of section 1141(d) of the Bankruptcy Code as to any Ordinary Course
8 Liability.

9 **5. Class 1—Other Priority Claims.**

10 Other Priority Claims are Claims that are entitled to priority in accordance with section
11 507(a) of the Bankruptcy Code, other than Administrative Expense Claims and Priority Tax Claims.
12 The Debtor believes that all Other Priority Claims have been or will be paid pursuant to an order of
13 the Bankruptcy Court. Accordingly, the Debtor believes that there should be no Allowed Other
14 Priority Claims.

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

19 **6. Class 2—Other Secured Claims.**

20 The Debtor believes that the Other Secured Claims will include Claims relating to
21 mechanics' and materialmens' liens and secured tax claims, as well as any Secured Claims other
22 than those Secured Claims in Class 3a, Class 3b and Class 4a.

23 Class 2 is unimpaired under the Plan. Pursuant to the Plan, except to the extent that a
24 holder of an Allowed Other Secured Claim has been paid by the Debtor prior to the Effective Date
25 or agrees to a different treatment, at the sole option of the Debtor, each holder of an Allowed Other
26 Secured Claim shall either be (a) reinstated and rendered unimpaired in accordance with section
27 1124(2) of the Bankruptcy Code, or (b) paid Cash in an amount equal to such Allowed Other
28 Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid

1 pursuant to section 506(b) of the Bankruptcy Code and in accordance with the terms specified in the
2 applicable statute, indenture or instrument governing such Allowed Other Secured Claim.

3 **7. Class 3a—Secured Claims Relating to First and Refunding Mortgage Bonds.**

4 Class 3a includes Secured Claims against the Debtor evidenced by the (a) 6.250% First
5 and Refunding Mortgage Bonds Series 93G due March 1, 2004; (b) 5.875% First and Refunding
6 Mortgage Bonds Series 93E due October 1, 2005; (c) 6.250% First and Refunding Mortgage Bonds
7 Series 81B due August 1, 2011; (d) 8.800% First and Refunding Mortgage Bonds Series 91A due
8 May 1, 2024; (e) 8.375% First and Refunding Mortgage Bonds Series 92B due May 1, 2025;
9 (f) 8.250% First and Refunding Mortgage Bonds Series 92D due November 1, 2022; (g) 7.250%
10 First and Refunding Mortgage Bonds Series 93A due March 1, 2026; (h) 7.250% First and
11 Refunding Mortgage Bonds Series 93D due August 1, 2026; (i) 6.750% First and Refunding
12 Mortgage Bonds Series 93F due October 1, 2023; (j) 7.05% First and Refunding Mortgage Bonds
13 Series 93F due October 1, 2033; and (k) 7.050% First and Refunding Mortgage Bonds Series 93H
14 due March 1, 2024, each issued by the Debtor under a First and Refunding Mortgage under which
15 BNY Western Trust Company was trustee on the Petition Date, together with any Matured and
16 Unpresented First and Refunding Mortgage Bonds; provided, however, that the Debtor is not
17 waiving any rights or claims it may have under applicable non-bankruptcy law against any holder of
18 any Matured and Unpresented First and Refunding Mortgage Bond or any other party with respect
19 thereto.¹⁹

20 Class 3a is impaired under the Plan. Except as provided in the next sentence, each
21 holder of an Allowed Secured Claim Relating to First and Refunding Mortgage Bonds will be paid
22 Cash in an amount equal to such Allowed Secured Claim. As to all First and Refunding Mortgage
23 Bonds owned in treasury by the Debtor that remain outstanding, the Debtor's Allowed Secured
24 Claim pertaining to such First and Refunding Mortgage Bonds may, in lieu of payment thereof in
25 Cash pursuant to the preceding sentence, be satisfied and discharged by the cancellation of such
26

27 ¹⁹See footnote 3, above, regarding the Series 93C Bonds due August 1, 2003, which are not
28 included in Class 3a.

1 First and Refunding Mortgage Bonds reasonably promptly prior to the Effective Date. Allowed
2 Secured Claims Relating to First and Refunding Mortgage Bonds will include prepayment penalties
3 or premiums as follows: (i) with respect to the following series of First and Refunding Mortgage
4 Bonds, a prepayment premium payable in cash upon the Effective Date as follows: a 1.0000%
5 premium with respect to the 8.800% First and Refunding Mortgage Bonds Series 91A due May 1,
6 2024, a 0.1000% premium with respect to the 5.875% First and Refunding Mortgage Bonds
7 Series 93E due October 1, 2005, a 0.0250% premium with respect to the 6.25% First and Refunding
8 Mortgage Bonds Series 93G due March 1, 2004 and a 1.0000% premium with respect to the 7.05%
9 First and Refunding Mortgage Bonds Series 93H due March 1, 2024; (ii) with respect to all other
10 series of redeemable First and Refunding Mortgage Bonds as to which the redemption period
11 commences prior to the Effective Date, any prepayment premium provided under the First and
12 Refunding Mortgage Bonds that applies to prepayment of such First and Refunding Mortgage Bonds
13 on or prior to the Effective Date, which shall be payable in Cash; and (iii) with respect to all other
14 series of redeemable First and Refunding Mortgage Bonds as to which the redemption period
15 commences subsequent to the Effective Date, a prepayment premium equal to the premium that
16 would apply at the commencement of such redemption period, shall be payable in Cash; provided,
17 however, that Allowed Secured Claims Relating to First and Refunding Mortgage Bonds shall not
18 include any other prepayment premium or penalties associated with the repayment of First and
19 Refunding Mortgage Bonds; and provided further, that no prepayment premium will be paid on any
20 series of First and Refunding Mortgage Bonds that matures in accordance with its terms prior to the
21 Effective Date if the Allowed Secured Claims on such series of First and Refunding Mortgage
22 Bonds are paid on or about the maturity date thereof. All existing Liens securing the Allowed
23 Secured Claims Relating to First and Refunding Mortgage Bonds shall be extinguished as of the
24 Effective Date.

25 **8. Class 3b—Secured Claims Relating to PC-Related Mortgage Bonds.**

26 Class 3b includes Secured Claims against the Debtor evidenced by the PC-Related
27 Mortgage Bonds that secure the Mortgage Backed PC Bond Claims contained in Class 4a.
28

1 Class 3b is impaired under the Plan. Pursuant to the Plan:

2 (a) if none of the New Money Notes are secured on the Effective Date, then each series
3 of PC-Related Mortgage Bonds shall be replaced with New Mortgage Bonds. In such event, each
4 holder of a PC-Related Mortgage Bond shall be paid an amount in Cash equal to any and all accrued
5 and unpaid interest owed to such holder in respect of such PC-Related Mortgage Bond in
6 accordance with the terms thereof to and including the last scheduled interest payment date
7 preceding the Effective Date.

8 (b) if any of the New Money Notes are secured on the Effective Date, then with respect
9 to each series of PC-Related Mortgage Bonds securing a series of Mortgage Backed PC Bonds
10 redeemed in accordance with Section 4.7(b)(ii) of the Plan, each holder of an Allowed Secured
11 Claim relating to such series of PC-Related Mortgage Bonds shall be paid Cash in an amount equal
12 to such Allowed Claim.

13 If any of the New Money Notes are secured on the Effective Date, all existing Liens
14 securing the Allowed Secured Claims Relating to PC-Related Mortgage Bonds shall be extinguished
15 as of the Effective Date.

16 **9. Class 4a—Mortgage Backed PC Bond Claims.**

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

21 Class 4a is impaired under the Plan. Pursuant to the Plan:

22 (a) if none of the New Money Notes are secured on the Effective Date, then:

23 (i) Each series of Mortgage Backed PC Bonds, and each of the PC Bond
24 Documents relating thereto, shall be renewed and remain outstanding. To the extent such payments
25 are not made or provided for by the payment of Class 3b Claims to or for the benefit of the Bond
26 Trustee, each holder of a Mortgage Backed PC Bond shall be paid Cash in an amount equal to any
27 and all accrued and unpaid interest owed to such holder in respect of such Mortgage Backed PC
28 Bond in accordance with the terms thereunder to and including the last scheduled interest payment

1 date preceding the Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due
2 and owing under the applicable Loan Agreements shall also be paid in Cash.

3 (ii) On or prior to the Effective Date, with respect to each series of Mortgage
4 Backed PC Bonds that will remain outstanding after the Effective Date, the Reorganized Debtor, the
5 Issuer and the Bond Trustee shall receive an opinion of the original bond counsel to the effect that
6 the transactions set forth herein with respect to each series of Mortgage Backed PC Bonds and the
7 execution and delivery of any releases, amendments or other agreements in connection therewith
8 will not, in and of themselves, cause interest on such series of Mortgage Backed PC Bonds to
9 become includable in the gross income of the holders thereof for federal income tax purposes.

10 (b) If any of the New Money Notes are secured on the Effective Date, then all of the
11 Mortgage Backed PC Bonds shall, at the option of the Reorganized Debtor with respect to each
12 series of Mortgage Backed PC Bonds, be (A) redeemed in accordance with their terms and each
13 holder of an Allowed Secured Claim relating to such series of Mortgage Backed PC Bonds shall be
14 paid Cash in an amount equal to such Allowed Claim, or (B) to the extent permitted under the terms
15 of the Indenture, purchased in lieu of redemption or otherwise in accordance with their terms, and
16 each holder of a Mortgage Backed PC Bond of such series will be paid a purchase price in Cash for
17 its Mortgage Backed PC Bond(s) in an amount equal to its Allowed Secured Claim with respect to
18 such Mortgage Backed PC Bond(s) ; provided, however, that, in connection with any such purchase
19 of the Mortgage Backed PC Bonds on the Effective Date, the Reorganized Debtor shall cause the
20 PC-Related Mortgage Bonds securing such outstanding Mortgage Backed PC Bonds (and the
21 Mortgage pursuant to which such PC-Related Mortgage Bonds were issued) to be released and
22 cancelled. The Reorganized Debtor may, among other things, at is option fund the redemption or
23 purchase price of Mortgage Backed PC Bonds tendered for redemption or purchase on the Effective
24 Date in accordance with the terms of the Plan from remarketing proceeds received from the sale and
25 remarketing of such bonds or from the proceeds of the issuance and sale of refunding bonds, which
26 remarketed or refunding bonds may, at the option of the Reorganized Debtor, be secured by, among
27 other things, contingent notes issued under the same indenture as the New Money Notes and ranking
28 pari passu therewith in accordance with the provisions of Section 7.2 of the Plan.

1 **10. Class 4b—MBIA Insured PC Bond Claims.**

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

6 Class 4b is unimpaired under the Plan. Pursuant to the Plan, The MBIA Insured PC
7 Bonds, and each of the PC Bond Documents relating thereto, shall remain outstanding. The Loan
8 Agreement and the PC Bond Documents related to the MBIA Insured PC Bonds will be reinstated
9 and rendered unimpaired in accordance with section 1124 of the Bankruptcy Code. Each holder of a
10 MBIA Insured PC Bond shall be paid Cash in an amount equal to any and all accrued and unpaid
11 interest owed to such holder in respect of such MBIA Insured PC Bond in accordance with the terms
12 of the respective MBIA Insured PC Bond, to and including the last scheduled interest payment date
13 preceding the Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and
14 owing under the applicable Loan Agreement shall also be paid in Cash.

15 **11. Class 4c—MBIA Claims.**

16 MBIA Claims consist of (a) the contingent Claims of MBIA with respect to payments
17 that 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, and (b) the
19 Claims of MBIA for any and all accrued and unpaid amounts due by the Debtor under the MBIA
20 Reimbursement Agreement, including any and all amounts due by the Debtor as reimbursement of
21 amounts paid by MBIA under the PC Bond Insurance Policy to the Bond Trustee for the payment of
22 interest on the MBIA Insured PC Bonds.

23 Class 4c is impaired under the Plan. Pursuant to the Plan, each holder of an Allowed
24 MBIA Claim shall be paid Cash equal to its pro rata share of the aggregate amount paid by MBIA to
25 the Bond Trustee with respect to the payment of interest on the MBIA Insured PC Bonds during the
26 period from the Petition Date to and including the last scheduled interest payment date preceding the
27 Effective Date, together with its pro rata share of all other amounts due and owing to MBIA under
28 the terms of the MBIA Reimbursement Agreement through the Effective Date, including any

1 accrued and unpaid interest due on such amounts to the extent provided in the MBIA
2 Reimbursement Agreement at the non-default rate. In addition, if any of the New Money Notes are
3 secured on the Effective Date, the Reorganized Debtor will deliver to MBIA, or for the benefit of
4 MBIA, a contingent note issued under the same indenture as the New Money Notes and ranking pari
5 passu therewith, in an amount equal to the aggregate outstanding principal amount of the MBIA
6 Insured PC Bonds as additional security for the Reorganized Debtor's obligations under the MBIA
7 Reimbursement Agreement after the Effective Date, and (ii) if none of the New Money Notes are
8 secured on the Effective Date but at least twenty-five percent (25%) of the aggregate principal
9 amount of the credit facilities established pursuant to the first sentence of Section 7.3 of the Plan are
10 secured on the Effective Date, the Reorganized Debtor will deliver to MBIA, or for the benefit of
11 MBIA, a contingent note issued under the same indenture as the New Mortgage Bonds and ranking
12 pari passu therewith, in an amount equal to the aggregate outstanding principal amount of the MBIA
13 Insured PC Bonds as additional security for the Reorganized Debtor's obligations under the MBIA
14 Reimbursement Agreement after the Effective Date. Principal amounts under any contingent note
15 issued pursuant to the preceding sentence shall be payable only to the extent that the Reorganized
16 Debtor has failed to satisfy its obligations under the MBIA Reimbursement Agreement to reimburse
17 MBIA for any payments made by MBIA pursuant to the PC Bond Insurance Policy for the payment
18 of the principal of the MBIA Insured PC Bonds. Such contingent note shall accrue interest on any
19 principal amount then due and payable thereunder at a rate equal to the interest rate which accrues
20 on any outstanding reimbursement obligations of the Reorganized Debtor under the MBIA
21 Reimbursement Agreement. Any payments made under such contingent note shall be deemed to
22 satisfy the Reorganized Debtor's obligations under the MBIA Reimbursement Agreement.

23 **12. Class 4d—Letter of Credit Backed PC Bond Claims.**

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

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

11 **13. Class 4e—Letter of Credit Bank Claims.**

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

21 Class 4e is impaired under the Plan. Pursuant to the Plan:

22 (a) with respect to each Letter of Credit Issuing Bank, until the earlier of (x) the
23 Effective Date, (y) the date the respective Letter of Credit is terminated or the stated amount thereof
24 is permanently reduced, or (z) the date that any of the related series of Letter of Credit Backed PC
25 Bonds are redeemed, to the extent that the Debtor has not reimbursed the applicable Letter of Credit
26 Issuing Bank and the applicable Banks, if any, for drawings made on the related Letter of Credit
27 with respect to the payment of interest on the related series of Letter of Credit Backed PC Bonds to
28 the extent provided in the respective Reimbursement Agreement, each holder of an Allowed Letter

1 of Credit Bank Claim shall be paid Cash in an amount equal to its pro rata share of the aggregate
2 amount paid by the respective Letter of Credit Issuing Bank to the respective Bond Trustee under
3 the terms of the applicable Letter of Credit with respect to the payment of the interest on the Letter
4 of Credit Backed PC Bonds to which such Letter of Credit Bank Claim relates during the period
5 from the Petition Date to and including the last scheduled interest payment date on such Letter of
6 Credit Backed PC Bonds preceding the Effective Date. Each holder of an Allowed Letter of Credit
7 Bank Claim will also be paid Cash in an amount equal to its pro rata share of all other amounts then
8 due and owing to the respective Letter of Credit Issuing Bank and the applicable Banks, if any,
9 under the terms of the respective Reimbursement Agreement (other than for reimbursement of
10 drawings on the respective Letter of Credit) through the Effective Date, including, without
11 limitation, interest at the interest rate due on such amounts to the extent provided in the respective
12 Reimbursement Agreements and any due and owing Forbearance, Extension and Letter of Credit
13 Fees through the Effective Date, and the reasonable fees and expenses of unrelated third-party
14 professionals retained by the Letter of Credit Issuing Banks, to the extent incurred subsequent to the
15 Petition Date in the Chapter 11 Case.

16 (b) On the Effective Date one of the following shall occur with respect to each series
17 of Letter of Credit Backed PC Bonds and its respective Letter of Credit, at the option of the Debtor
18 separately for each series of Letter of Credit Backed PC Bonds:

19 (i) Purchase Option. The respective series of Letter of Credit Backed PC
20 Bonds shall be called for mandatory tender in accordance with the terms of the respective Indenture
21 and shall be purchased by the respective Bond Trustee through a draw on the related Letter of Credit
22 and, at the option of the respective Letter of Credit Issuing Bank, shall either be registered in the
23 name of the respective Letter of Credit Issuing Bank or in the name of the Debtor subject to a first
24 lien security interest in favor of the respective Letter of Credit Issuing Bank to additionally secure
25 the obligations of the Debtor under the related Reimbursement Agreement. On the Effective Date,
26 to the extent that the Letter of Credit Issuing Bank and the Banks have not been reimbursed therefor,
27 the Letter of Credit Issuing Bank will receive Cash in an amount equal to the sum of (i) the interest
28 portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a draw

1 on the respective Letter of Credit, and (ii) the aggregate amount paid by the respective Letter of
2 Credit Issuing Bank to the respective Bond Trustee under the terms of the applicable Letter of Credit
3 with respect to the payment of the interest on the respective Letter of Credit Backed PC Bonds
4 during the period from and after June 27, 2002 to and including the last scheduled interest payment
5 date on such Letter of Credit Backed PC Bonds preceding the Effective Date, together with interest
6 at the non-default rate due on such amounts to the extent provided in the respective Reimbursement
7 Agreement. On the Effective Date, the Letter of Credit Issuing Bank shall transfer the related Letter
8 of Credit Backed PC Bonds in the aggregate original principal amount as set forth on Exhibit C to
9 the Plan to the Debtor or its assignee free and clear of all liens. On the Effective Date, the Letter of
10 Credit Issuing Bank will receive (i) Cash in an amount equal to the principal portion of the purchase
11 price of the tendered Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter
12 of Credit, and (ii) a fee (the “Purchase Option Incentive Fee”) in an amount equal to 0.4% of the
13 principal portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of
14 a draw on the respective Letter of Credit.

15 (ii) Remarketing Option. The respective series of Letter of Credit Backed PC
16 Bonds shall be called for mandatory tender in accordance with the terms of the respective Indenture
17 and shall be purchased by the respective Bond Trustee through a draw on the related Letter of
18 Credit. The Debtor will then either (i) provide or cause to be provided to the respective Bond
19 Trustee an alternative “Credit Facility” pursuant to the terms of the respective Indenture in lieu of
20 the existing Letter of Credit, or (ii) obtain the consent of the Issuer to remarket the respective series
21 of Letter of Credit Backed PC Bonds without credit enhancement in accordance with the terms of
22 the applicable Indenture. In either event the respective series of Letter of Credit Backed PC Bonds
23 shall be remarketed, at par, in accordance with the terms of the Indenture and the other PC Bond
24 Documents. In such event, on the Effective Date, the Letter of Credit Issuing Bank will receive, to
25 the extent that the Letter of Credit Bank has not been reimbursed therefor (i) from the Debtor, Cash
26 in an amount equal to the sum of (A) the interest portion of the purchase price of the tendered Letter
27 of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit, and (B) the
28 aggregate amount paid by the respective Letter of Credit Issuing Bank to the respective Bond

1 Trustee under the terms of the applicable Letter of Credit with respect to the payment of the interest
2 on the respective Letter of Credit Backed PC Bonds during the period from and after June 27, 2002
3 to and including the last scheduled interest payment date on such Letter of Credit Backed PC Bonds
4 preceding the Effective Date, together with interest at the non-default rate due on such amounts to
5 the extent provided in the respective Reimbursement Agreement, (ii) from the Debtor, a fee (the
6 “Remarketing Option Incentive Fee”) in an amount equal to either (1) 0.5% of the aggregate
7 principal amount of the respective Letter of Credit Backed PC Bonds remarketed on the Effective
8 Date the payment of the principal of and interest on which are secured by either a replacement Letter
9 of Credit, with a term of not less than one year from the Effective Date, delivered to the Trustee in
10 accordance with the terms of the respective Indenture upon terms acceptable to the Debtor or an
11 extension of the existing Letter of Credit delivered to the Trustee in accordance with the terms of the
12 respective Indenture upon terms acceptable to the Debtor, or (2) 0.4% of the aggregate principal
13 amount of the respective Letter of Credit Backed PC Bonds remarketed on the Effective Date the
14 payment of the principal of and interest on which are not secured by such a Letter of Credit, and
15 (iii) from the Bond Trustee, an amount equal to the principal portion of the purchase price of the
16 tendered Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit,
17 which amount shall be paid from the remarketing proceeds of the respective Letter of Credit Backed
18 PC Bonds in accordance with the terms of the respective Indenture.

19 (iii) No Bonds Option. With respect to each Letter of Credit Issuing Bank and
20 the related Banks, if any, in the event that neither the Purchase Option nor the Remarketing Option,
21 as applicable, can be consummated or the respective series of Letter of Credit Backed PC Bonds are
22 redeemed on or prior to the Effective Date as the result of the expiration of the respective Letter of
23 Credit or otherwise, then at the option of the Debtor separately for each Letter of Credit Bank Claim
24 and Reimbursement Agreement either:

25 (x) On the Effective Date, the Letter of Credit Issuing Bank will receive
26 Cash in an amount equal to the sum of (A) the principal portion of the redemption price of the
27 redeemed Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit
28 (the “Principal Reimbursement”) and (B) any and all accrued and unpaid interest owing to the Letter

1 of Credit Issuing Bank in respect of such Principal Reimbursement, at a fluctuating rate of interest,
2 in accordance with the terms of the applicable Reimbursement Agreement; or

3 (y) On the Effective Date, the Letter of Credit Issuing Bank shall sell,
4 transfer and assign to the Debtor or its assignee, without recourse, all of the Letter of Credit Issuing
5 Bank's and the related Banks' rights, title and interest in the applicable Letter of Credit Bank Claim
6 and Reimbursement Agreement, including, but not limited to, the right to receive repayment of the
7 Principal Reimbursement in the aggregate principal amount as set forth on Exhibit C to the Plan,
8 together with the right to receive payment of interest thereon as set forth in the amended
9 Reimbursement Agreement, free and clear of all liens. On the Effective Date, the Debtor or its
10 assignee shall purchase from the Letter of Credit Issuing Bank and the related Banks, if any, all of
11 their rights, title and interest in the applicable Letter of Credit Bank Claim and Reimbursement
12 Agreement for a purchase price in Cash in an amount equal to the sum of (A) the respective
13 Principal Reimbursement and (B) any and all accrued and unpaid interest owing to the Letter of
14 Credit Issuing Bank in respect of such Principal Reimbursement, at a fluctuating rate of interest, in
15 accordance with the terms of the applicable Reimbursement Agreement.

16 In addition to the foregoing with respect to the No Bond Option, if (i) the
17 Letter of Credit Issuing Bank maintains its Letter of Credit outstanding in the stated amount set forth
18 on Exhibit C to the Plan through the Effective Date and does not provide the Trustee with notice of
19 default under its Reimbursement Agreement or non-reinstatement of its Letter of Credit or take any
20 other action which would result in the redemption, either in whole or in part, of the outstanding
21 Letter of Credit Backed PC Bonds without the prior written consent of the Debtor, and (ii) the Letter
22 of Credit Issuing Bank and each of the related Banks, if any, take all action reasonably required by
23 the Debtor to keep the Letter of Credit Backed PC Bonds outstanding and to facilitate either the
24 Purchase Option or the Remarketing Option, as applicable, including, without limitation, giving
25 direction to the Trustee, providing commercially reasonable indemnification to the Issuer and
26 Trustee, and using their best efforts to consummate the proposed amendments to the terms of the
27 Letter of Credit Backed PC Bonds as set forth in the LC Bank Agreement (as hereinafter defined)
28 and to consummate either the Purchase Option or the Remarketing Option as applicable, so as to

1 maintain for the Debtor the benefits of the tax-exempt financing provided by the related series of
2 Letter of Credit Backed PC Bonds, then, on the Effective Date (A) in the event that the Letter of
3 Credit Backed PC Bonds were redeemed prior to the Effective Date for reasons beyond the control
4 of the Letter of Credit Issuing Bank, the Letter of Credit Issuing Bank will receive from the Debtor,
5 a fee in an amount equal to 0.05% of the principal portion of the redemption price of the redeemed
6 Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit, and (B) in
7 the event that the Letter of Credit Backed PC Bonds are redeemed on the Effective Date for reasons
8 beyond the control of the Letter of Credit Issuing Bank, the Letter of Credit Issuing Bank will
9 receive from the Debtor, a fee (the “No Bonds Option Fee”) in an amount equal to 0.10% of the
10 principal portion of the redemption price of the redeemed Letter of Credit Backed PC Bonds paid
11 out on a draw on the respective Letter of Credit.

12 (c) Pursuant to the terms of an agreement amount the Debtor and each of the Letter of
13 Credit Issuing Banks (the “LC Bank Agreement”) that was approved by order of the Bankruptcy
14 Court entered on June 17, 2002, 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 C to the Plan, (B) not provide the Trustee with notice of any
17 default under any of the Reimbursement Agreements or non-reinstatement of any of the Letters of
18 Credit or take any other action which would result in the mandatory tender or redemption, either in
19 whole or in part, of any of the outstanding Letter of Credit Backed PC Bonds without the prior
20 written consent of the Debtor, and (C) extend the expiration date of each of the Letters of Credit to
21 the first Business Day subsequent to the one (1) year anniversary of the expiration date of each
22 Letter of Credit existing as of the Petition Date; provided, however, that each Letter of Credit
23 Issuing Bank is only obligated to undertake or refrain from undertaking those actions set forth in
24 clauses (A) and (B) immediately above until the earlier of (i) the last interest payment date on the
25 related series of Letter of Credit Backed PC Bonds immediately preceding the expiration date of
26 such Letter of Credit, as such expiration date shall be extended in accordance with the terms of the
27 LC Bank Agreement, or (ii) the occurrence of a “Termination Event” (as such term is defined in the
28 LC Bank Agreement). In consideration for such forbearance and other actions by the Letter of

1 Credit Issuing Banks, the Debtor shall, subject to certain terms and conditions as set forth in the LC
2 Bank Agreement, pay to each Letter of Credit Issuing Bank, (1) during the period from and after
3 June 17, 2002 and continuing until July 1, 2002, quarterly, in arrears, the Letter of Credit fee as set
4 forth in the respective Reimbursement Agreement (the “Original Letter of Credit Fee”), together
5 with an amount equal to the positive difference, if any, of an amount per annum equal to two percent
6 (2%) of the Stated Amount of the Letter of Credit, less the Original Letter of Credit Fee, which total
7 fee accrues from and after December 1, 2001 and until July 1, 2002, and has been payable on the
8 same dates as are set forth for payment of Letter of Credit Fees in the applicable Reimbursement
9 Agreement, and (2) during the period from and after July 1, 2002 and continuing until the Effective
10 Date, quarterly, in arrears, the Original Letter of Credit Fee, together with an amount equal to the
11 positive difference, if any, of an amount per annum equal to three percent (3%) of the Stated
12 Amount of the Letter of Credit, less the Original Letter of Credit Fee, which total fee accrues from
13 and after July 1, 2002 until the Effective Date, and shall be payable on the same dates as are set forth
14 for payment of Letter of Credit Fees in the applicable Reimbursement Agreement (the Original
15 Letter of Credit Fee together with such additional sums being referred to collectively as the
16 “Forbearance, Extension and Letter of Credit Fees”). Additionally, pursuant to the terms of the LC
17 Bank Agreement, the Debtor has agreed, among other things and subject to certain conditions, to
18 pay to Deutsche Bank AG New York Branch an agency fee in the amount of \$250,000, which fee
19 was paid by the Debtor on June 18, 2002.

20 **14. Class 4f—Prior Bond Claims.**

21 Prior Bond Claims consist of the Claims of the Prior Letter of Credit Issuing Banks and
22 the related Banks, if any, for any and all accrued and unpaid amounts due by the Debtor under their
23 respective Prior Reimbursement Agreements, including amounts due as reimbursement of amounts
24 paid by each Prior Letter of Credit Issuing Bank under its respective Prior Letter of Credit to the
25 Bond Trustee for the payment of the redemption price of the related series of Prior Bonds.

26 Class 4f is unimpaired under the Plan. Pursuant to the Plan, Each Allowed Prior Bond
27 Claim will be reinstated and rendered unimpaired in accordance with section 1124 of the
28 Bankruptcy Code. On the Effective Date one of the following shall occur with respect to each Prior

1 Reimbursement Agreement and all of the Allowed Prior Bond Claims arising with respect thereto:

2 (a) Each holder of an Allowed Prior Bond Claim shall be paid Cash in an amount
3 equal to (A) the outstanding Reimbursement Obligation, or portion thereof, owing to such holder,
4 (B) any and all accrued and unpaid interest owing to such holder in respect of such Reimbursement
5 Obligation or applicable portion thereof at a fluctuating rate of interest in accordance with the terms
6 of the applicable Reimbursement Agreement, and (C) all other amounts due and owing to the
7 respective holder of an Allowed Prior Bond Claim under the terms of the respective Prior
8 Reimbursement Agreement, through the Effective Date.

9 (b) Alternatively, upon the written request of the Debtor, with the prior written
10 consent of the respective Prior Letter of Credit Issuing Bank, the related Banks and each of the other
11 holders of Allowed Prior Bond Claims related thereto, each such holder of an Allowed Prior Bond
12 Claim shall be paid Cash in an amount equal to (A) any and all accrued and unpaid interest owing to
13 such holder in respect of the Reimbursement Obligation or applicable portion thereof owing to such
14 holder at a fluctuating rate of interest in accordance with the terms of the applicable Reimbursement
15 Agreement, and (B) all other amounts (other than the Reimbursement Obligation or applicable
16 portion thereof) due and owing to the respective holder of an Allowed Prior Bond Claim under the
17 terms of the respective Prior Reimbursement Agreement, through the Effective Date. On the
18 Effective Date, the applicable Prior Letter of Credit Issuing Bank, the related Banks and any other
19 holders of Allowed Prior Bond Claims related thereto shall sell, transfer and assign to the Debtor or
20 its assignee, all of the Prior Letter of Credit Issuing Bank's, the related Banks' and the related
21 Allowed Prior Bond Claim holders' rights, title and interest in the applicable Prior Reimbursement
22 Agreement, including, but not limited to, the right to receive repayment of the related
23 Reimbursement Obligation, together with the right to receive payment of interest thereon as set forth
24 in the applicable Prior Reimbursement Agreement, free and clear of all Liens. In such event, on the
25 Effective Date, the Debtor or its assignee shall purchase from the Prior Letter of Credit Issuing
26 Bank, the related Banks and the holders of the related Allowed Prior Bond Claims, all of their rights,
27 title and interest in the applicable Prior Reimbursement Agreement for a purchase price in Cash in
28 an amount equal to the respective Reimbursement Obligation. All of the documents related to the

1 transfer and sale of rights under the Prior Reimbursement Agreement shall be in form and content
2 satisfactory to the Debtor, the Prior Letter of Credit Issuing Bank, the related Banks and each of the
3 other holders of Allowed Prior Bonds Claims related thereto.

4 **15. Class 4g—Treasury PC Bond Claims.**

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

9 Class 4g is unimpaired under the Plan. Pursuant to the Plan, each series of Treasury PC
10 Bonds shall remain outstanding. Each of the Loan Agreements and the PC Bond Documents related
11 to the Treasury PC Bonds will be reinstated and rendered unimpaired in accordance with section
12 1124 of the Bankruptcy Code. Each holder of a Treasury PC Bond shall be paid Cash in an amount
13 equal to any and all accrued and unpaid interest owed to such holder in respect of such Treasury PC
14 Bond in accordance with the terms thereof to and including the last scheduled interest payment date
15 preceding the Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and
16 owing under the applicable Loan Agreement shall also be paid in Cash.

17 **16. Class 5—General Unsecured Claims.**

18 Class 5 includes, but is not limited to, (a) Revolving Line of Credit Claims, (b) Medium
19 Term Notes Claims, (c) Senior Note Claims, (d) Floating Rate Notes Claims, (e) Southern San
20 Joaquin Valley Power Authority Bond Claims, (f) Commercial Paper Claims, (g) Claims arising
21 from the rejection of executory contracts and unexpired leases as defined in section 365 of the
22 Bankruptcy Code, (h) Claims relating to litigation filed before the Petition Date against the Debtor
23 that have been fully settled, liquidated or determined by a Final Order or a binding award, agreement
24 or settlement prior to the Petition Date for amounts payable by the Debtor for damages or other
25 obligations in a fixed dollar amount payable in a lump sum or by a series of payments, (i) Claims of
26 the Debtor's vendors, suppliers and service providers, and (j) Claims relating to intercompany
27 obligations to Affiliates; provided, however, that General Unsecured Claims will not include any
28 unsecured Claims included in any other class.

1 Class 5 is impaired under the Plan. Pursuant to the Plan, each holder of an Allowed
2 General Unsecured Claim shall be paid Cash in an amount equal to such Allowed Claim (which
3 shall include Pre-Petition Interest). Except to the extent the provisions are rendered inapplicable
4 because of the payment of Senior Indebtedness in Cash under the Plan, the treatment of Senior
5 Indebtedness under the Plan, including with respect to the payment of interest, incorporates the
6 terms of the Settlement and Support Agreement. Such treatment is summarized in Exhibit B to the
7 Plan.

8 **17. Class 6—ISO, PX and Generator Claims.**

9 Class 6 includes Allowed Claims of the ISO, PX and various power generators for
10 purchases of electricity or ancillary services by the Debtor in markets operated by the PX and the
11 ISO. The aggregate amount of ISO, PX and Generator Claims filed is materially higher than the
12 Debtor believes is the amount allowable under the Plan. There were at least \$4 billion in duplicate
13 ISO, PX and Generator Claims resulting from clerical errors, identical Claims filed by the PX and
14 electric power generators, and amendments to Claims filed without withdrawing or expressly
15 superseding the original Claim. In addition to these duplicates, the amount of Claims filed by
16 electric power generators, the PX and the ISO for supplying power (without allocating a certain
17 portion of such amount to the Debtor) is approximately \$3.9 billion. The Debtor's share of this
18 amount was approximately \$1.8 billion according to the account summaries received to date from
19 the PX for the period through January 17, 2001. Many Claims were also filed relating to services
20 provided after January 17, 2001, the latest date on and after which the applicable FERC decisions
21 precluded the imposition of such costs on the Debtor. Although there is a dispute as to whether the
22 PX or the individual generators should have standing to pursue the claims that arose from purchases
23 in the PX market, the aggregate amount of these claims is limited to approximately \$1.8 billion,
24 pursuant to the Bankruptcy Court's Order on Debtor's Omnibus Objection to Duplicate PX and
25 Generator Claims filed on June 28, 2002. One generator has agreed to a pre-petition offset of its
26 Claim in the amount of \$200 million. Also, the Debtor expects to recover at least \$800 million in
27 refunds through the FERC's determination of just and reasonable rates, subject to further hearings
28 and appeals. Thus, the Debtor estimates that the allowable amount of ISO, PX and Generator

1 Claims is, at most, approximately \$700 million. However, the Debtor has agreed to deposit \$1.6
2 billion in the Disputed Claims escrow with respect to ISO, PX and Generator Claims, unless the
3 Bankruptcy Court orders a different amount to be deposited after a hearing on reasonable notice.
4 All ISO, PX and Generator Claims are Disputed Claims.²⁰

5 Class 6 is unimpaired under the Plan. Each holder of an Allowed ISO, PX and
6 Generator Claims is conclusively presumed to have accepted the Plan and is not entitled to vote to
7 accept or reject the Plan. However, the Proponents understand that certain holders of Class 6 Claims
8 believe that Class 6 Claims are impaired by the Plan. Accordingly, to avoid any delay in the
9 confirmation process, as a precautionary measure holders of Class 6 Claims will be solicited to vote
10 on the Plan and their votes will be tabulated, so that in the event any such holders object to
11 confirmation of the Plan based on the classification of their Claims as unimpaired, and the
12 Bankruptcy Court sustains such objection, the results of their votes will be known for purposes of
13 applying the confirmation standard under section 1129(a)(8) of the Bankruptcy Code.²¹ Allowing
14 the holders of Class 6 Claims to vote is without prejudice to the Proponents' position that Class 6 is
15 unimpaired, and the Proponents reserve the right to contest any objection to the unimpaired status of

16
17 ²⁰At or before the Confirmation Hearing, the Debtor intends to establish (a) the aggregate
18 amount of Allowed Claims, for purposes of evaluating the feasibility of the Plan, and (b) the
19 aggregate amount necessary to fund adequately the Disputed Claims reserve. The Debtor agrees
20 that for purposes of determining the amount of Allowed ISO, PX and Generator Claims that are not
21 resolved consensually by settlement, the Debtor will prosecute the FERC Refund Proceedings only
22 before the FERC or any court to which an appeal from the FERC's order may be taken, and will not
23 attempt to obtain a determination of such matters before the Bankruptcy Court, except for the
24 limited process described in the preceding sentence and to the extent the Debtor has an objection
25 based on a matter that is not the subject matter of the FERC Refund Proceedings. Nothing described
26 in this paragraph or provided in the Plan precludes the Debtor from asserting any other defense or
27 objection to any ISO, PX and Generator Claims. The PX and the holders of Class 6 Claims reserve
28 all rights to object to the confirmation of the Plan on any grounds, including the feasibility of the
29 Plan, the amount needed in the Disputed Claims reserve, and the terms and conditions of the
30 proposed payment of Disputed Claims in excess of the reserved amount.

31 ²¹The following holders of ISO, PX and Generator Claims would be entitled to vote to accept
32 or reject the Plan if Class 6 were impaired, and accordingly the following holders of ISO, PX and
33 Generator Claims will be supplied ballots as part of the solicitation process: (i) each holder of an
34 Allowed ISO, PX and Generator Claim, and (ii) each holder of an ISO, PX and Generator Claim that
35 is Disputed and that has been temporarily allowed pursuant to the Bankruptcy Court's Order Re
36 Debtor's Motion For Temporary Allowance Of Claims of Certain Electricity Generators And
37 Disallowance Of Claims Of California Power Exchange For Plan Voting Purposes filed in the
38 Chapter 11 Case on June 17, 2002.

1 Class 6.

2 Pursuant to the Plan, each holder of an Allowed ISO, PX and Generator Claim shall be
3 paid Cash in an amount equal to such Allowed Claim (which shall include Pre-Petition Interest).

4 **18. Class 7—ESP Claims.**

5 Class 7 includes Allowed Claims of ESPs with respect to PX energy credits to be paid
6 by the Debtor to such ESPs. The Debtor provides PX energy credits to those customers that have
7 chosen to buy electricity from an ESP rather than from the Debtor. The amount of such credit is
8 then paid to the applicable ESP; provided, however, the ESP passes on the credit to the customer.
9 All ESP Claims are Disputed Claims. The aggregate amount of ESP Claims filed is materially
10 higher than the amount that the Debtor believes is allowable under the Plan. Of the approximately
11 \$596 million of ESP Claims filed against the Debtor, approximately \$13 million of ESP Claims
12 were withdrawn by the claimants following the Debtor's objection to duplicative ESP Claims, and
13 the Bankruptcy Court has disallowed an additional approximately \$60 million of ESP Claims. In
14 addition, the energy credits were based on wholesale electricity prices the FERC has determined to
15 be unjust and unreasonable. The Debtor is asking the Commission to approve the retroactive
16 adjustment of the credits to reflect the just and reasonable wholesale electricity price as ultimately
17 determined by FERC. This request, if granted and applied to all periods in which the credits
18 accumulated, could lead to a further reduction in the credits in excess of \$100 million. In addition,
19 the Debtor disputes the validity of all of the PX energy credits, since it believes that the retail rate
20 freeze ended as early as August 2000 (which would eliminate the credits).

21 Class 7 is unimpaired under the Plan. Each holder of an Allowed ESP Claim is
22 conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the
23 Plan. However, the Proponents understand that certain holders of Class 7 Claims believe that Class
24 7 Claims are impaired by the Plan. Accordingly, to avoid any delay in the confirmation process, as
25 a precautionary measure holders of Class 7 Claims will be solicited to vote on the Plan and their
26 votes will be tabulated, so that in the event any such holders object to confirmation of the Plan based
27 on the classification of their Claims as unimpaired, and the Bankruptcy Court sustains such
28 objection, the results of their votes will be known for purposes of applying the confirmation

1 standard under section 1129(a)(8) of the Bankruptcy Code. Allowing the holders of Class 7 Claims
2 to vote is without prejudice to the Proponents' position that Class 7 is unimpaired, and the
3 Proponents reserve the right to contest any objection to the unimpaired status of Class 7.²²

4 Pursuant to the Plan, each holder of an Allowed ESP Claim shall be paid Cash in an
5 amount equal to such Allowed Claim (which shall include Pre-Petition Interest).

6 **19. Class 8—Environmental, Fire Suppression, Pending Litigation and Tort**
7 **Claims.**

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

14 Class 8 is unimpaired under the Plan. Subject to the next paragraph, each Allowed
15 Environmental, Fire Suppression, Pending Litigation and Tort Claim shall be satisfied in full in the
16 ordinary course of business at such time and in such manner as the Reorganized Debtor is obligated
17 to satisfy such Allowed Claim under applicable law. Except as provided under applicable non-
18 bankruptcy law, Post-Petition Interest will not be paid on Allowed Environmental, Fire Suppression,
19 Pending Litigation and Tort Claims.

20 All Environmental, Fire Suppression, Pending Litigation and Tort Claims are Disputed
21 Claims and shall be determined, resolved or adjudicated, as the case may be, in a manner as if the
22 Chapter 11 Case had not been commenced (except that, under sections 365 and/or 1123(b)(2) of the
23 Bankruptcy Code, contractual provisions, accelerations and defaults eliminated or rendered
24 unenforceable by such sections shall remain eliminated or unenforceable, and the stay shall remain
25 in place for any Environmental, Fire Suppression, Pending Litigation and Tort Claims as to which

26 _____
27 ²²The following holders of Class 7 Claims will be supplied ballots as part of the solicitation
28 process: (i) each holder of an Allowed ESP Claim, and (ii) any holder of an ESP Claim that has not
been disallowed pursuant to a Final Order of the Bankruptcy Court.

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

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

20 As to any consent decree, injunction, cleanup and abatement order or any other
21 administrative or judicial order or decree binding upon the Debtor and outstanding as of the
22 Effective Date (whether originating before or after the Petition Date) that pertains to any
23 environmental matter described in clauses (a) through (c) of the definition of Environmental Claim
24 set forth in the Plan (each an “Environmental Order”), each such Environmental Order, regardless of
25 whether it constitutes or is characterized as an Environmental Claim, shall also survive the Effective
26 Date as if the Chapter 11 Case had not been commenced, shall not be discharged under section
27 1141(d) of the Bankruptcy Code, and shall not otherwise be adversely affected by the Chapter 11
28 Case (except for any objection to such Environmental Claim based on the contention that such

1 Environmental Order is an Environmental Claim that was not timely asserted in the Chapter 11
2 Case).

3 **20. Class 9—QUIDS Claims.**

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

10 Class 9 is unimpaired under the Plan. Pursuant to the Plan, each holder of an Allowed
11 QUIDS Claim shall be paid Cash in an amount equal to such Allowed Claim.

12 **21. Class 10—Workers' Compensation Claims.**

13 Class 10 includes any Workers' Compensation Claims arising prior to the Petition Date.
14 Class 10 is unimpaired under the Plan. Pursuant to the Plan, each Allowed Workers' Compensation
15 Claim arising prior to the Petition Date shall be satisfied in the ordinary course of business at such
16 time and in such manner as the Reorganized Debtor is obligated to satisfy such Allowed Claim
17 under applicable law. Post-petition Workers' Compensation Claims are treated as Ordinary Course
18 Liabilities under the Plan and shall receive the same pass-through treatment as Workers'
19 Compensation Claims arising prior to the Petition Date. Except as provided under applicable non-
20 bankruptcy law, Post-Petition Interest will not be paid on any Workers' Compensation Claims.
21 Nothing in this Disclosure Statement or the Plan shall affect (i) the rights of any surety or the Parent
22 with respect to the Workers' Compensation Indemnity Agreements, (ii) the rights of the parties to
23 object to the existence of such rights, (iii) the subrogation rights, to the extent applicable or
24 available, of any surety of Workers' Compensation Claims arising before or after the Petition Date,
25 or (iv) the rights of the Debtor to object, pursuant to the Bankruptcy Code, to the existence of such
26 subrogation rights.

27 **22. Class 11—Preferred Stock Equity Interests.**

28 Class 11 includes the Debtor's First Preferred Stock, par value \$25.00 per share. The

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

7 Class 11 is unimpaired under the Plan. Pursuant to the Plan, each holder of a Preferred
8 Stock Equity Interest will retain its Preferred Stock in the Reorganized Debtor and will be paid in
9 Cash any dividends and sinking fund payments accrued in respect of such Preferred Stock through
10 the last scheduled payment date prior to the Effective Date.

11 **23. Class 12—Common Stock Equity Interests.**

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

15 Class 12 is unimpaired under the Plan. Pursuant to the Plan, each holder of a Common
16 Stock Equity Interest will retain its Common Stock in the Debtor.

17 **B. FINANCING OF THE PLAN; WORKING CAPITAL FACILITIES;**
18 **SECURITIES ISSUED UNDER THE PLAN.**

19 Pursuant to the Proposed Settlement Agreement, it is anticipated that all financing
20 necessary to consummate the Plan shall be arranged and placed by a financing team led by the
21 Debtor that includes representatives of the Commission and the Debtor, and shall be duly authorized
22 by the Commission and subject to the authority and duty of the respective boards of directors of the
23 Debtor and the Parent to approve such financing.

24 In consideration for the agreement by UBS Warburg LLC ("UBS Warburg") and
25 Lehman Brothers each to (i) limit its consummation and/or advisory fee to \$20 million (in the case
26 of Lehman Brothers, inclusive of advisory fees already paid by the Parent and further subject to the
27 crediting provisions contained in the Lehman Brothers' engagement letter with the Parent, and, in
28 the case of UBS Warburg, in lieu of the full consummation fee calculated pursuant to section 2(d) of

1 UBS Warburg's engagement letter with the Commission and the OCC), which shall be payable on
2 the Effective Date, and (ii) jointly provide the bank facilities determined by the Debtor to be
3 necessary under the Plan (subject to negotiation of satisfactory terms and conditions), the Debtor has
4 agreed, pursuant to the Commission Settlement, to name UBS Warburg and Lehman Brothers as
5 exclusive book runners, lead managers and hedging providers of all financings pursuant to the Plan,
6 with equal economics for eighty percent (80%) of the aggregate of total fees and commissions
7 payable on such financings, and otherwise on customary terms as agreed among them. To the extent
8 that the Debtor adds co-managers, the Commission shall have the right to appoint one additional
9 manager at the highest level of economics available to co-managers. All documents used or
10 prepared by the Debtor in connection with the financing, including prospectuses, indentures and
11 notes, shall be in form and substance reasonably satisfactory to the Commission.

12 The Proposed Settlement Agreement provides that the cost of the financing, including,
13 without limitation, principal, interest, any fees or discounts payable to investment bankers, capital
14 markets arrangers or book runners, including the fees to be paid to UBS Warburg and Lehman
15 Brothers as described above, as well as any past or future call premiums on reacquired debt, shall be
16 fully recoverable as part of the cost of debt to be collected in the Debtor's retail gas and electric
17 rates without further review.

18 **1. Equity Securities.**

19 No new equity securities will be issued to holders of Claims in satisfaction of Allowed
20 Claims under the Plan.

21 **2. New Money Notes.**

22 On or before the Effective Date, the Reorganized Debtor shall sell and issue new debt
23 securities in the original principal amount of approximately \$8.7 billion, the general terms of which
24 are set forth on the Summary of Terms of Debt Securities attached as Exhibit A to the Plan (the
25 "New Money Notes"). To the extent the amount of Allowed Claims is greater or the amount of the
26 Debtor's Cash available for payment of Allowed Claims is lower than the estimates on which the
27 Plan is based, or to the extent that Cash must be used to settle hedge agreements entered into by the
28 Debtor prior to the Effective Date pursuant to Section 7.4 of the Plan or pursuant to a Bankruptcy

1 Court order on a noticed motion by the Debtor, the amount of New Money Notes will be increased.
2 To the extent the amount of Allowed Claims is lower or the amount of the Debtor's Cash available
3 for payment of Allowed Claims is greater than the estimates on which the Plan is based (including a
4 reduction of up to \$450 million if all or a portion of the payment or purchase of the Reimbursement
5 Obligations under Class 4f are paid in Cash from the proceeds of the issuance and sale of refunding
6 bonds, and a reduction of up to \$345 million if none of the New Money Notes are secured on the
7 Effective Date and the New Mortgage Bonds are exchanged for PC-Related Mortgage Bonds) or to
8 the extent the credit facilities or the accounts receivable financing programs described in Section 7.3
9 of the Plan are used to fund payment of Claims, the amount of New Money Notes will be decreased.
10 If any of the New Money Notes are secured on the Effective Date, contingent notes (in addition to
11 the contingent notes to be issued to holders of Class 4c Claims) may be issued under the same
12 indenture as the New Money Notes and ranking pari passu therewith, as security for obligations of
13 the Reorganized Debtor after the Effective Date, with the amounts under such contingent notes
14 payable only to the extent that the Reorganized Debtor has failed to satisfy the underlying
15 obligation.

16 **3. Credit Facilities.**

17 As of the Effective Date, the Reorganized Debtor shall establish one or more credit
18 facilities (which may include revolving and term loan credit facilities, and which may be secured in
19 whole or in part) for the purpose of (i) funding operating expenses and seasonal fluctuations in
20 working capital, (ii) providing letters of credit or other forms of credit support, and (iii) to the extent
21 the Reorganized Debtor determines resort to such credit facilities to be necessary or appropriate to
22 perform the Reorganized Debtor's obligations under the Plan, performing the Reorganized Debtor's
23 obligations under the Plan. Additionally, the Reorganized Debtor will use letters of credit as
24 collateral to facilitate natural gas purchases, and for other purposes. The Reorganized Debtor may
25 also establish one or more customer accounts receivable financing programs for the same purposes
26 specified in the preceding sentence. In addition, the Reorganized Debtor as of the Effective Date
27 may establish or utilize credit support devices such as surety bonds and credit insurance (which may
28 be secured in whole or in part).

1 4. Hedging.

2 The Debtor may enter into hedge agreements with commercial and investment banks to
3 reduce the effect to the Reorganized Debtor of any increase in interest rates on the New Money
4 Notes. Such hedge agreements may include futures contracts, forward contracts, option agreements,
5 swaps and other similar contracts designed to limit the risk to borrowers of future interest rate
6 changes. These hedge agreements are likely to require that the Debtor provide either cash collateral
7 (in the case of futures, forwards and swaps) or an upfront cash payment (in the case of options) as
8 credit enhancement. The cash settlement of these hedge agreements will occur before or on the
9 Effective Date.

10 5. New Mortgage Bonds.

11 If the New Money Notes are not secured on the Effective Date, the Reorganized Debtor
12 will also issue New Mortgage Bonds to replace each series of PC-Related Mortgage Bonds. The
13 terms of the New Mortgage Bonds to be issued under the Plan are described in the Summary of
14 Terms of Debt Securities attached as Exhibit A to the Plan.

15 If none of the New Money Notes are secured on the Effective Date and the New
16 Mortgage Bonds are exchanged for PC-Related Mortgage Bonds, contingent notes may be issued
17 under the same indenture as the New Mortgage Bonds and ranking pari passu therewith, as security
18 for obligations of the Reorganized Debtor after the Effective Date, with the amounts under such
19 contingent notes payable only to the extent that the Reorganized Debtor has failed to satisfy the
20 underlying obligation.

21 C. METHOD OF DISTRIBUTION UNDER THE PLAN.

22 All distributions under the Plan shall be made by the Debtor as Disbursing Agent or
23 such other entity designated by the Debtor as Disbursing Agent. A Disbursing Agent shall not be
24 required to provide any bond, surety or other security for the performance of its duties, unless
25 otherwise ordered by the Bankruptcy Court; and, in the event that a Disbursing Agent is so
26 otherwise ordered, all costs and expenses of procuring any such bond, surety or other security shall
27 be borne by the Debtor. Distributions on account of Allowed Claims under any indentures shall be
28 made to the respective indenture trustees in accordance with Bankruptcy Rule 3021, and such

1 indenture trustees shall serve as the Distribution Agents under the respective indentures. Each
2 indenture trustee shall, in turn, administer the distribution to the holders of the debt issued under the
3 applicable indenture in accordance with the terms of such indenture. The reasonable fees and
4 expenses of each indenture trustee incurred on or after the Effective Date in connection with the
5 distributions described in this subparagraph, including the reasonable fees and expenses of the
6 indenture trustee's professionals and agents, shall be paid by the Reorganized Debtor without further
7 application to or order of the Bankruptcy Court.

8 Subject to Bankruptcy Rules 3021 and 9010, all distributions under the Plan shall be
9 made (i) to the holder of each Allowed Claim or Equity Interest at the address of such holder as
10 listed on the Debtor's Bankruptcy Schedules as of the Distribution Record Date, unless the Debtor
11 has been notified in writing of a change of address, including, without limitation, by the filing of a
12 timely proof of Claim by such holder, or other applicable written notice, that provides an address for
13 such holder different from the address reflected on the Debtor's Bankruptcy Schedules, or
14 (ii) pursuant to the terms of a particular indenture of the Debtor or in accordance with other written
15 instructions of a trustee under such indenture.

16 As of the close of business on the Distribution Record Date, the claims register and
17 records of the stock transfer agent shall be closed, and there shall be no further changes in the record
18 holder of any Claim or Equity Interest. The Debtor shall have no obligation to recognize any
19 transfer of any Claim or Equity Interest occurring after the Distribution Record Date. The Debtor
20 shall instead be authorized and entitled to recognize and deal, for all purposes of the Plan, with only
21 those recordholders stated on the claims register or the records of the stock transfer agent as of the
22 close of business on the Distribution Record Date.

23 Any payment of Cash made by the Debtor pursuant to the Plan shall, at the Debtor's
24 option, be made by check drawn on a domestic bank or wire transfer.

25 Any payment or distribution required to be made under the Plan on a day other than a
26 Business Day shall be made on the next succeeding Business Day.

27 All distributions under the Plan that are unclaimed for a period of one year after
28 distribution thereof shall be deemed unclaimed property under section 347(b) of the Bankruptcy

1 Code and reverted in the Debtor and any entitlement of any holder of any Claim or Equity Interest to
2 such distributions shall be extinguished and forever barred.

3 **D. TIMING OF DISTRIBUTIONS UNDER THE PLAN.**

4 Except to the extent a holder of an Allowed Claim or Equity Interest has otherwise been
5 paid all or a portion of such holder's Allowed Claim or Equity Interest prior to the Effective Date,
6 payments and distributions to holders of Allowed Claims shall be made on the Effective Date, or as
7 soon as practicable thereafter. Payments or distributions made after the Effective Date on account of
8 a Disputed Claim which later becomes an Allowed Claim will be deemed to have been made on the
9 date payments or distributions are made to holders of Allowed Claims in the same Class as such
10 Disputed Claim. Nothing in the Plan shall affect the right of reconsideration set forth in section
11 502(j) of the Bankruptcy Code. Any Claims that become Allowed Claims following reconsideration
12 by the Bankruptcy Court shall be treated in the same manner as Allowed Claims in the same Class.

13 Post-Petition Interest accrued prior to the Effective Date shall be paid as described in
14 Section IX.A above (Classification and Treatment of Claims and Equity Interests).

15 **E. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES.**

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

21 Pursuant to sections 365(a) and 1123 (b)(2) of the Bankruptcy Code, all executory
22 contracts and unexpired leases that exist between the Debtor and any Person or Governmental Entity
23 shall be deemed assumed by the Debtor, as of the Effective Date, except for any executory contract
24 or unexpired lease (i) that has been assumed or rejected pursuant to Final Order entered prior to the
25 Confirmation Date, (ii) as to which a motion for approval of the rejection of such executory contract
26 or unexpired lease has been filed and served prior to the Confirmation Date which results in a Final
27 Order, or (iii) that is set forth in Schedule 6.1 (executory contracts and unexpired leases), which
28 schedule is included in the Plan Supplement. The Debtor reserves the right, on or prior to the

1 conclusion of the Confirmation Hearing, to amend Schedule 6.1 to delete any executory contract or
2 unexpired lease therefrom or add any executory contract or unexpired lease thereto, in which event
3 such executory contract(s) or unexpired lease(s) shall be deemed to be assumed by the Debtor or
4 rejected, as the case may be, as of the Effective Date. The Debtor will give notice of any such
5 amendment to each counterparty to any executory contract or expired lease the status of which is
6 changed as a result of the amendment (i.e., any executory contract or unexpired lease that is to be
7 assumed or rejected as a result of the amendment). In the event that the counterparty opposes the
8 proposed amendment, the Debtor will make all reasonable efforts to provide such counterparty a
9 reasonable opportunity under the circumstances to object prior to confirmation of the Plan and, to
10 the extent that such counterparty had the right to vote on the Plan, or became entitled to vote on the
11 Plan as a result of the amendment to Schedule 6.1, to provide such counterparty a reasonable time to
12 cast a Ballot to accept or reject the Plan, or to amend its Ballot. The listing of a document on
13 Schedule 6.1 shall not constitute an admission by the Debtor that such document is an executory
14 contract or an unexpired lease or that the Debtor has any liability thereunder. Nothing herein or in
15 the Plan shall prohibit any counterparty's right to claim a contract is not executory.

16 Notwithstanding anything to the contrary, the Debtor waives its right to make amendments pursuant
17 to Section 6.1 of the Plan with respect to the assumption of the PG&E-Western Area Power
18 Administration Contract 2948A and related contracts identified in a letter dated November 26,
19 2001.²³

20 Pursuant to the Plan, each executory contract and unexpired lease listed or to be listed
21 on Schedule 6.1 shall include (i) modifications, amendments, supplements, restatements or other
22 similar agreements made directly or indirectly by any agreement, instrument or other document that
23 in any manner affects such executory contract or unexpired lease, without regard to whether such

24
25 ²³Under Contract 2948A, the Debtor integrates its resources with those of the CVP (as defined
26 in Contract 2948A and related agreements) and the Debtor serves the combined PG&E/CVP load
27 with the integrated resources. The combined PG&E/CVP load includes service to the CVP's project
28 loads and "preference" power customers. As part of the integration, WAPA may bank energy and
later withdraw it for CVP project loads and preference customers. Assumption of this contract
assures that the integration and transmission services provided by the Debtor will continue until
contract expiration at the end of calendar year 2004.

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

8 All savings, retirement, health care, severance, performance-based cash incentive,
9 retention, employee welfare benefit, life insurance, disability and similar plans and agreements of
10 the Debtor are treated as executory contracts under the Plan and shall, on the Effective Date, be
11 deemed assumed by the Debtor in accordance with sections 365(a) and 1123(b)(2) of the
12 Bankruptcy Code. Any defaults thereunder shall be cured as provided below.

13 With respect to the Pacific Gas and Electric Company Retirement Plan (the “Retirement
14 Plan”), the Debtor affirms and agrees that it is and the Reorganized Debtor will continue to be the
15 contributing sponsor of the Retirement Plan, as defined under 29 U.S.C. § 1301(a)(13) and 29
16 C.F.R. § 4001.2, or a member of the contributing sponsor’s controlled group, as defined under 29
17 U.S.C. § 1301(a)(14) and 29 C.F.R. § 4001.2. As a contributing sponsor (or member of the
18 controlled group) of the Retirement Plan, the Debtor and the Reorganized Debtor intend to fund the
19 Retirement Plan in accordance with the minimum funding standards under ERISA, 29 U.S.C. §
20 1802, pay all required Pension Benefit Guaranty Corporation (the “PBGC”) insurance premiums, 29
21 U.S.C. § 1307, and comply with all requirements of the retirement plan and ERISA. The Retirement
22 Plan is a defined benefit pension plan insured by the PBGC under Title IV of ERISA, 29 U.S.C. §§
23 1301-1461. The Retirement Plan is subject to the minimum funding requirements of ERISA, 29
24 U.S.C. § 1082 and section 412 of the Internal Revenue Code, 26 U.S.C. § 412. No provision of or
25 proceeding within the Debtor’s reorganization proceedings, the Plan, nor the Confirmation Order
26 shall in any way be construed as discharging, releasing or relieving the Debtor, the Reorganized
27 Debtor, or any other party in any capacity, from any liability with respect to the Retirement Plan or
28 any other defined benefit pension plan under any law, governmental policy or regulatory provision.

1 PBGC and the Retirement Plan shall not be enjoined or precluded from enforcing liability resulting
2 from any of the provisions of the Plan or the Plan's confirmation.

3 Payments, if any, due to any Person for the purpose of providing or reimbursing
4 payments for retired employees and their spouses and dependents for medical, surgical or hospital
5 care benefits, or benefits in the event of sickness, accident, disability or death under any plan, fund
6 or program (through the purchase of insurance or otherwise) maintained or established in whole or
7 in part by the Debtor prior to the Petition Date shall be continued for the duration of the period the
8 Debtor has obligated itself to provide such benefits.

9 The Plan provides that the Reorganized Debtor shall continue to pay franchise fees and
10 perform its obligations under franchise agreements and applicable law.

11 Pursuant to the Plan, subject to and upon the occurrence of the Effective Date, entry of
12 the Confirmation Order by the Bankruptcy Court shall constitute (i) the approval, pursuant to
13 sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the assumption of the executory
14 contracts and unexpired leases assumed pursuant to the Plan, (ii) the extension of time, pursuant to
15 section 365(d)(4) of the Bankruptcy Code, within which the Debtor may assume or reject the
16 unexpired leases of non-residential real property pursuant to the Plan, through the Effective Date,
17 and (iii) the approval, pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy
18 Code, of the rejection of the executory contracts and unexpired leases rejected pursuant to
19 Section 6.1 of the Plan.

20 Except as may otherwise be agreed by the parties, the Debtor shall cure or provide
21 adequate assurance that the Debtor will promptly cure, as provided in Section 6.4 of the Plan, any
22 and all defaults within thirty (30) days after the Effective Date with respect to executory contracts
23 and unexpired leases assumed by the Debtor pursuant to Section 6.1 of the Plan, in accordance with
24 section 365(b)(1) of the Bankruptcy Code. Within thirty (30) days after the Effective Date, the
25 Debtor shall pay, in Cash, (i) all such cure amounts arising prior to the filing of the Chapter 11 Case
26 and (ii) all such cure amounts arising from and after the Petition Date up to (but not including) the
27 date which is sixty (60) days prior to the Effective Date. All such cure amounts arising on or after
28 sixty (60) days prior to the Effective Date shall be treated as Ordinary Course Liabilities. The

1 counterparty shall not be required to file an Administrative Expense Claim or any other Claim with
2 respect to such cure payments.

3 Pursuant to the Plan, within thirty (30) days after the Effective Date, with respect to each
4 executory contract or unexpired lease assumed by the Debtor pursuant to Section 6.1 of the Plan, the
5 Debtor shall send to each counterparty by United States mail a “Notice of Cure,” in a form to be
6 approved by the Bankruptcy Court to the extent necessary or appropriate, which shall (i) identify the
7 applicable contract(s) or lease(s) and (ii) provide contact information for the counterparty to obtain
8 additional information. Concurrent with such Notice of Cure, the Debtor shall send a check for the
9 cure amount as set forth in the Debtor’s books and records; provided, however, that no check will be
10 sent if the cure amount is zero. The Notice shall also indicate, if applicable, that no other cure
11 (monetary or non-monetary) is required under the contract or lease.

12 In the event that the Debtor shall pay all cure amounts due according to the Debtor’s
13 books and records pursuant to Section 6.4 of the Plan and the counterparty disagrees that such cure
14 is sufficient to cure all defaults within the meaning of section 365(b)(1) of the Bankruptcy Code, the
15 counterparty shall notify the Debtor in writing within 30 days of the date of mailing of the Notice of
16 Cure of such dispute (a “Dispute Notice”). The Dispute Notice must contain a statement of the
17 additional cure amount or other cure sought by the counterparty (the “Additional Cure”), a brief
18 description of the reasons that the counterparty believes it is entitled to such Additional Cure, and
19 copies of any documents in support of such Additional Cure. The Debtor shall respond to such
20 Dispute Notice in writing within 60 days from the date of receipt of such Dispute Notice (a “Dispute
21 Response”). If the Debtor does not respond within such 60-day period, the Additional Cure will be
22 deemed to be owing by the Debtor and will be paid or otherwise satisfied by the Debtor within 30
23 days following the end of such 60-day period. The counterparty shall have 30 days from the service
24 of the Dispute Response to seek relief from the Bankruptcy Court regarding such dispute. If the
25 counterparty does not seek such relief within 30 days after the service of the Debtor’s Dispute
26 Response, the amount paid, if any, by the Debtor will be deemed the final cure amount and the
27 counterparty shall be forever barred from seeking any additional cure. In the event that the
28 counterparty timely seeks such relief, within 30 days (or such other time as agreed by the parties) of

1 (i) the entry of a Final Order determining the additional liability of the Debtor, if any, with respect to
2 the cure of the respective contract or lease, or (ii) a final settlement between the parties with respect
3 to such additional liability, the Debtor will pay in Cash or otherwise satisfy such additional liability.
4 Nothing in Section 6.4 of the Plan shall prohibit the Debtor from seeking appropriate relief from the
5 Bankruptcy Court with respect to any such cure.

6 **F. PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS.**

7 On the Effective Date (or as soon as practicable thereafter), and after making all
8 distributions required to be made on the Effective Date, the Reorganized Debtor shall establish, at its
9 election, one or more separate escrows, each of which shall be administered in accordance with the
10 Plan and pursuant to the direction of the Bankruptcy Court, and shall deposit or segregate into such
11 escrow account(s) sufficient Cash to make distributions in respect of Disputed Claims; provided,
12 however, that this provision shall not apply to any Environmental Claim, Fire Suppression Claim,
13 Pending Litigation Claim, Tort Claim or Workers' Compensation Claim. The amount to be
14 deposited into such escrow(s) by the Reorganized Debtor shall be determined by the Bankruptcy
15 Court pursuant to a reasonably noticed motion; provided, however, that the escrowed amount for
16 Class 6 Claims shall be at least \$1.6 billion absent further order of the Bankruptcy Court. No
17 distributions from the escrow(s) shall be made until such Disputed Claims have been Allowed or
18 otherwise resolved by the Bankruptcy Court and any such distributions shall be made in accordance
19 with the Plan.

20 To the extent a Disputed Claim becomes an Allowed Claim, such Allowed Claim will be
21 satisfied in the same manner as all other Allowed Claims of such holder's Class. From and after the
22 Effective Date, the Cash reserved for such Disputed Claim will earn interest at the same rate as if
23 such Cash had been invested in either (i) money market funds consisting primarily of short-term
24 U.S. Treasury securities or (ii) obligations of or guaranteed by the United States of America or any
25 agency thereof, at the option of the Debtor, until the Disputed Claim becomes an Allowed Claim;
26 provided, however that a Disputed ESP Claim or a Disputed ISO, PX and Generator Claim shall
27 earn interest through the date of payment in accordance with Exhibit B to the Plan to the extent it
28 becomes an Allowed Claim as set forth in the Plan. A Disputed ISO, PX and Generator Claim shall

1 become an Allowed Claim on the date designated by FERC when payments are to be made on
2 account of ISO, PX and Generator Claims, pursuant to an unstayed order in the FERC Refund
3 Proceedings; provided, however, that if no date is designated in such order, a Disputed ISO, PX and
4 Generator Claim shall automatically become an Allowed Claim forty-five (45) days after the
5 issuance of such order, provided such order has not been stayed.

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

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

22 Except as to applications for allowance of compensation and reimbursement of
23 Professional Compensation and Reimbursement Claims under sections 330 and 503 of the
24 Bankruptcy Code, the Debtor shall, on and after the Effective Date, have the exclusive right to make
25 and file objections to Administrative Expense Claims and Claims. Except as to applications for
26 allowance of compensation and reimbursement of Professional Compensation and Reimbursement
27 Claims under sections 330 and 503 of the Bankruptcy Code, on and after the Effective Date, the
28 Debtor shall have the authority to compromise, settle, otherwise resolve or withdraw any objections

1 to Administrative Expense Claims and Claims and compromise, settle or otherwise resolve Disputed
2 Administrative Expense Claims, Disputed Claims and Ordinary Course Liabilities without approval
3 of the Bankruptcy Court. Unless otherwise ordered by the Bankruptcy Court, (a) all objections to
4 Claims (except Administrative Expense Claims and Claims in Class 8) shall be filed and served
5 upon the holder of the Claim as to which the objection is made (and, as applicable, upon the Debtor
6 and the Committee) as soon as is practicable, but in no event later than the Effective Date, (b) all
7 objections to Administrative Expense Claims arising on or before the Confirmation Date shall be
8 served and filed upon the holder of the Administrative Expense Claim as to which the objection is
9 made (and, as applicable, upon the Debtor and the Committee) as soon as is practicable, but in no
10 event later than ninety (90) days after the Effective Date, and (c) all objections to Administrative
11 Expense Claims arising after the Confirmation Date and on or before the Effective Date shall be
12 served and filed upon the holder of the Administrative Expense Claim as to which the objection is
13 made (and, as applicable, upon the Debtor and the Committee) as soon as is practicable, but in no
14 event later than one hundred eighty (180) days after the Effective Date.

15 **G. CONDITIONS PRECEDENT TO CONFIRMATION OF THE PLAN.**

16 The Plan shall not be confirmed by the Bankruptcy Court unless and until the following
17 conditions shall have been satisfied or waived pursuant to Section 8.4 of the Plan:

- 18 ? the Bankruptcy Court shall have entered an order or orders, which may be the
19 Confirmation Order, approving the Plan, authorizing the Debtor to execute, enter
20 into and deliver the Plan, and to execute, implement and take all actions necessary
21 or appropriate to give effect to the transactions contemplated by the Plan;
- 22 ? the Bankruptcy Court shall have entered an order or orders, which may be the
23 Confirmation Order, approving and authorizing the execution of, and finding
24 reasonable the terms and conditions of, the Proposed Settlement Agreement;
- 25 ? the Confirmation Order shall be, in form and substance, acceptable to the
26 Proponents and the Commission; provided, however, that the Confirmation Order
27 shall:
- 28 (i) expressly order the Settling Parties to perform each and all of their
respective obligations under the Proposed Settlement Agreement, including
but not limited to those obligations of the Settling Parties expressly set
forth in the Confirmation Order;
- (ii) expressly order and state those obligations of the Commission under the
Proposed Settlement Agreement that the PG&E Proponents request be
expressly ordered and stated in the Confirmation Order; and

- 1 (iii) expressly order and state those obligations of the PG&E Proponents under
2 the Proposed Settlement Agreement that the Commission requests be
3 expressly ordered and stated in the Confirmation Order;
- 4 ? in connection with the Confirmation Order, the Bankruptcy Court shall have made
5 findings of fact and/or conclusions of law, as applicable, as follows:
- 6 (i) the Commission has waived its sovereign immunity and submitted itself to
7 the jurisdiction of the Bankruptcy Court in connection with the
8 enforcement of the Proposed Settlement Agreement, the Plan and the
9 Confirmation Order and the determination of the Settling Parties'
10 respective rights under the Proposed Settlement Agreement, the Plan and
11 the Confirmation Order;
- 12 (ii) because the Proposed Settlement Agreement is a material part of the Plan
13 and is expressly attached to and incorporated by reference into the Plan, the
14 Proposed Settlement Agreement and the Settling Parties' respective rights
15 and obligations thereunder are fully enforceable by the Bankruptcy Court
16 as material provisions of the Plan the same as if they were set forth
17 verbatim in the Plan;
- 18 (iii) the Proposed Settlement Agreement, and any order entered by the
19 Bankruptcy Court contemplated or required to implement the Plan or the
20 Proposed Settlement Agreement upon the Plan and the Proposed
21 Settlement Agreement becoming effective, shall be enforceable under
22 federal law notwithstanding any contrary state law;
- 23 (iv) the Proposed Settlement Agreement and the Plan, upon becoming
24 effective, and the orders to be entered by the Bankruptcy Court as
25 contemplated under the Proposed Settlement Agreement and the Plan, shall
26 be irrevocable and binding upon the Settling Parties and their successors
27 and assigns, notwithstanding any future decisions and orders of the
28 Commission; and
- (v) the Bankruptcy Court has exclusive jurisdiction to enforce the Proposed Settlement Agreement.

H. CONDITIONS PRECEDENT TO EFFECTIVENESS OF THE PLAN.

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

- ? the Effective Date shall have occurred on or before March 31, 2004;
- ? all actions, documents and agreements necessary to implement the Plan shall have been effected or executed;
- ? the Debtor and the Parent shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents that are determined by the Debtor and the Parent to be necessary to implement the Plan;
- ? S&P shall have issued a long-term issuer credit rating for the Reorganized Debtor of not less than BBB-, and Moody's shall have issued an issuer rating for the Reorganized Debtor of not less than Baa3;

- 1 ? S&P and Moody's shall have issued credit ratings for the New Money Notes of not
2 less than BBB- and Baa3, respectively;
- 3 ? The Commission shall have given its Final Approval of the Proposed Settlement
4 Agreement on behalf of the Commission, and each of the parties to the Proposed
5 Settlement Agreement shall have executed and delivered to one another counterpart
6 copies of the Proposed Settlement Agreement;
- 7 ? The Commission shall have given its Final Approval for all rates, tariffs and
8 agreements necessary to implement the Plan and the Proposed Settlement
9 Agreement;
- 10 ? The Commission shall have given its Final Approval for all of the financings,
11 securities issuances and accounts receivable programs provided for in the Plan;
- 12 ? The Plan shall not have been modified in a material way, including any
13 modification pursuant to Section 11.11 of the Plan, since the Confirmation Date;
14 and
- 15 ? The Reorganized Debtor shall have consummated the sale of the New Money Notes
16 as contemplated by the Plan.

17 The Plan Proponents collectively (but not otherwise) may waive by a writing signed by
18 an authorized representative of each of the Proponents and subsequently filed with the Bankruptcy
19 Court, one or more of the conditions precedent set forth in Sections 8.1 and 8.2 of the Plan, except
20 that the conditions set forth in Sections 8.2(d), (e), (f), (g), (h) and (i) of the Plan cannot be waived.
21 These conditions relate to required credit ratings; Final Approval by the Commission of the
22 Proposed Settlement Agreement, the rates, tariffs and agreements necessary to implement the Plan,
23 and the financings, securities and accounts receivable programs provided for in the Plan; and
24 execution of the Proposed Settlement Agreement.

25 In the event that one or more of the conditions to the Effective Date described above and
26 set forth in Section 8.2 of the Plan have not occurred or been waived on or before March 31, 2004
27 (or such later date as may be hereafter provided in an amended Section 8.2(a) of the Plan), (i) the
28 Confirmation Order shall be vacated, (ii) no distributions under the Plan shall be made, (iii) the
29 Debtor and all holders of Claims and Equity Interests shall be restored to the status quo ante as of
30 the day immediately preceding the Confirmation Date as though the Confirmation Order had never
31 been entered and (iv) the Debtor's obligations with respect to Claims and Equity Interests shall
32 remain unchanged and nothing contained herein shall constitute or be deemed a waiver or release of

1 any Claims or Equity Interests by or against the Debtor or any Person or Governmental Entity or to
2 prejudice in any manner the rights of the Debtor or any Person or Governmental Entity in any
3 further proceedings involving the Debtor; provided, however, that amounts paid pursuant to Section
4 4.2(a) of the Plan on account of Post-Petition Interest may be recharacterized as a payment upon the
5 applicable Allowed Claims, in the sole discretion of the Proponents, but the Debtor will not
6 otherwise seek to recover such amounts.

7 **I. IMPLEMENTATION AND EFFECT OF CONFIRMATION OF THE PLAN.**

8 From and after the Effective Date, the Reorganized Debtor and its subsidiaries and
9 affiliates may each operate its businesses, and may use, acquire and dispose of their property free of
10 any restrictions imposed under the Bankruptcy Code. As of the Effective Date, all property of the
11 Reorganized Debtor shall be free and clear of all Liens, claims and interests of holders of Claims
12 and Equity Interests, except as otherwise provided in the Plan. Unless otherwise provided, all
13 injunctions and stays provided for in the Chapter 11 Case under section 105 of the Bankruptcy
14 Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect
15 in accordance with the terms of such injunctions or stays. Unless otherwise provided, the automatic
16 stay provided under section 362 of the Bankruptcy Code shall remain in full force and effect until
17 the Effective Date.

18 **J. DISCHARGE AND INJUNCTION.**

19 The rights afforded pursuant to the Plan and the treatment of all Claims and Equity
20 Interests under the Plan shall be in exchange for and in complete satisfaction, discharge and release
21 of Claims and Equity Interests of any nature whatsoever, including any Post-Petition Interest
22 accrued on such Claims, against the Debtor or any of its assets or properties. Except as otherwise
23 provided in the Plan, pursuant to section 1141(d)(1) of the Bankruptcy Code (i) as of the
24 Confirmation Date, all such Claims against and Equity Interests in the Debtor shall be satisfied,
25 discharged and released in full and (ii) all Persons and Governmental Entities shall be enjoined from
26 asserting against the Reorganized Debtor, its successors or its assets or properties any other or
27 further Claims or Equity Interests based upon any act or omission, transaction or other activity of
28 any kind or nature that occurred prior to the Confirmation Date.

1 Except as otherwise expressly provided in the Plan, the Confirmation Order or a
2 separate order of the Bankruptcy Court, all entities who have held, hold or may hold Claims against
3 or Equity Interests in the Debtor, are permanently enjoined, on and after the Confirmation Date,
4 from (i) commencing or continuing in any manner any action or other proceeding of any kind with
5 respect to any such Claim or Equity Interest, (ii) seeking the enforcement, attachment, collection or
6 recovery by any manner or means of any judgment, award, decree or order against the Reorganized
7 Debtor on account of any such Claim or Equity Interest, (iii) creating, perfecting or enforcing any
8 encumbrance of any kind against the Reorganized Debtor or against the property or interests in
9 property of the Reorganized Debtor on account of any such Claim or Equity Interest, (iv) asserting
10 any right of setoff, subrogation or recoupment of any kind against any obligation due to (or asserting
11 any right of subrogation with respect to any type of claim against) the Reorganized Debtor or against
12 the property or interests in property of the Reorganized Debtor on account of any such Claim or
13 Equity Interest to the extent such right of setoff, recoupment and/or subrogation is not permitted
14 under applicable law, and (v) commencing or continuing in any manner any action or other
15 proceeding of any kind with respect to any claims or Causes of Action which are extinguished,
16 dismissed or released pursuant to the Plan. The injunction shall also enjoin all parties in interest,
17 including, without limitation, all entities who have held, hold or may hold Claims against or Equity
18 Interests in the Debtor, from taking any action in violation of the Confirmation Order. Such
19 injunction shall extend to successors of the Reorganized Debtor and their respective properties and
20 interests in property. Except as provided in Sections 11.4, 11.6 and 11.7 of the Plan, Section 9.6 of
21 the Plan does not enjoin, bar or otherwise impair the commencement or prosecution of direct
22 personal claims against any Person other than the Reorganized Debtor.

23 **K. 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 that is entitled to vote on the Plan pursuant to Article IV of the Plan shall be entitled
27 to vote separately to accept or reject the Plan with regard to each Impaired Class of Claims of Equity
28 Interests. If the Debtor objects to a Claim, the Claim becomes a Disputed Claim. A Disputed Claim

1 is not entitled to vote on the Plan unless the Debtor or the holder of the Disputed Claim obtains an
2 order of the Bankruptcy Court temporarily allowing the amount of the Disputed Claim for voting
3 purposes. If the Debtor does not object to a Claim prior to the date on which the Disclosure
4 Statement and the Ballot are transmitted to creditors for voting, the holder of such Claim will be
5 permitted to vote on the Plan in the full amount of the Claim as filed, unless the Bankruptcy Court
6 orders otherwise.

7 Pursuant to its Order On Debtor's Omnibus Objection To Duplicate PX And Generator
8 Claims filed on June 28, 2002, the Bankruptcy Court determined that: (i) certain claims filed by
9 electricity generators based on the purchase by the Debtor of electricity or ancillary services in
10 markets operated by the PX and the ISO are duplicative of a claim for such purchases filed by the
11 PX; and (ii) such claims by electricity generators will be allowed in the maximum aggregate amount
12 of approximately \$1.8 billion. That Order expressly did not determine the specific dollar amount of
13 any individual generator's claim or determine the proper holder of claims based on the purchase by
14 the Debtor of electricity or ancillary services in markets operated by the PX and the ISO.

15 Pursuant to its Order Re Debtor's Motion For Temporary Allowance Of Claims Of
16 Certain Electricity Generators And Disallowance Of Claims Of California Power Exchange For Plan
17 Voting Purposes filed on June 17, 2002, the Bankruptcy Court temporarily allowed for voting on a
18 Chapter 11 plan in the Debtor's bankruptcy case certain claims of electricity generators in specified
19 amounts, and temporarily disallowed the corresponding claim filed by the PX for plan voting
20 purposes.

21 **2. Elimination of Vacant Classes.**

22 Any Class of Claims that is not occupied as of the date of commencement of the
23 Confirmation Hearing by an Allowed Claim or a Claim temporarily allowed under Bankruptcy Rule
24 3018 shall be deemed eliminated from the Plan for purposes of voting to accept or reject the Plan
25 and for purposes of determining acceptance or rejection of the Plan by such Class pursuant to
26 section 1129(a)(8) of the Bankruptcy Code.

27 **3. Nonconsensual Confirmation**

28 If one or more classes of Claims or Equity Interests entitled to vote shall not accept the

1 Plan by the requisite statutory majorities provided in section 1126(c) of the Bankruptcy Code, each
2 of the Proponents reserves the right to amend the Plan in accordance with Section 11.11 of the Plan
3 or undertake to have the Bankruptcy Court confirm the Plan under section 1129(b) of the
4 Bankruptcy Code, or both. With respect to any impaired Classes of Claims or Equity Interests that
5 may be deemed to reject the Plan, the Proponents shall request the Bankruptcy Court to confirm the
6 Plan under section 1129(b) of the Bankruptcy Code. See Section XIII.1 of this Disclosure Statement
7 for more information regarding nonconsensual confirmation.

8 **L. SUMMARY OF OTHER PROVISIONS OF THE PLAN.**

9 The following subsections summarize certain other significant provisions of the Plan.
10 The Plan should be referred to for the complete text of these and other provisions of the Plan.

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

12 Amendments or modifications of or to the Plan may be proposed in writing by the
13 Proponents acting collectively at any time prior to the Confirmation Date; provided, however, that
14 the Plan, as amended or modified, satisfies the conditions of sections 1122 and 1123 of the
15 Bankruptcy Code and the Proponents shall have complied with section 1125 of the Bankruptcy
16 Code. The Plan may be amended or modified by the Proponents acting collectively at any time after
17 the Confirmation Date and before substantial consummation of the Plan; provided, however, that the
18 Plan, as amended or modified, satisfies the requirements of sections 1122 and 1123 of the
19 Bankruptcy Code and the Bankruptcy Court, after notice and a hearing, confirms the Plan, as
20 amended or modified, under section 1129 of the Bankruptcy Code and the circumstances warrant
21 such amendments or modifications. A holder of a Claim that has accepted the Plan shall be deemed
22 to have accepted the Plan, as amended or modified, if the proposed amendment or modification does
23 not materially and adversely change the treatment of the Claim of such holder.

24 The Proponents shall negotiate in good faith with one another and with the Commission
25 in connection with any and all proposed amendments or modifications to the Plan and in connection
26 with any proposed waiver concerning any provision of the Plan, including but not limited to the
27 waiver of any conditions to confirmation of the Plan or the Effective Date of the Plan. No
28 amendment, modification or waiver shall be made without the express consent of all the Proponents.

1 If either the PG&E Proponents, acting collectively, or the Committee desire an amendment or
2 modification of or to the Plan or a waiver under the Plan that the other Proponent does not agree to
3 after such negotiation, the PG&E Proponents, acting collectively, or the Committee may propose
4 such amendment, modification or waiver in writing at any time prior to the Confirmation Date, or
5 after the Confirmation Date and before substantial consummation of the Plan; provided, however, in
6 each case, that (i) the Plan, as so amended or modified or after giving effect to such waiver, does not
7 materially alter any Settling Party's rights or obligations under the Plan and the Commission
8 Settlement Agreement or the Committee's rights or obligations under the Plan, (ii) the Plan, as so
9 amended or modified or after giving effect to such waiver, satisfies the conditions of sections 1122
10 and 1123 of the Bankruptcy Code and the PG&E Proponents shall have complied with section 1125
11 of the Bankruptcy Code, and (iii) the Bankruptcy Court, after hearing on such notice as is provided
12 below, determines that the circumstances warrant such amendment, modification or waiver. The
13 PG&E Proponents or the Committee, as the case may be, shall only implement such an amendment,
14 modification or waiver pursuant to a Final Order of the Bankruptcy Court obtained after a hearing
15 on not less than ten (10) days' notice to the other Proponent(s), the Commission and the United
16 States Trustee. A holder of a Claim that has accepted the Plan shall be deemed to have accepted the
17 Plan, as amended or modified or after giving effect to a waiver, if the proposed amendment,
18 modification or waiver does not materially and adversely change the treatment of the Claim of such
19 holder.

20 If the Commission does not agree with (i) any amendment or modification proposed by
21 the Proponents pursuant to subparagraph (a) of Section 11.11 of the Plan, (ii) any amendment or
22 modification proposed by the PG&E Proponents collectively or by the Committee pursuant to
23 subparagraph (b) of Section 11.11 of the Plan, or (iii) any alteration, amendment or modification
24 proposed by the PG&E Proponents collectively pursuant to subparagraph (b) of Section 11.11 of the
25 Plan, then in each such case (x) the Proponents or the PG&E Proponents, as the case may be, shall
26 only implement such amendment, modification or waiver pursuant to a Final Order of the
27 Bankruptcy Court obtained after notice and a hearing on not less than ten (10) days' notice to the
28 Commission and the United States Trustee, and (y) the Commission shall retain all rights, remedies,

1 claims and defenses which it may have pursuant to the Proposed Settlement Agreement.

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

3 Pursuant to the Plan, on the Effective Date, the notes, bonds, debentures and all other
4 debt instruments evidencing any Claim (and any indentures and other agreements related thereto),
5 including Administrative Expense Claims, other than those that are reinstated and rendered
6 unimpaired or renewed and extended pursuant to Article IV of the Plan, or renewed and remain
7 outstanding pursuant to Article IV of the Plan, respectively, shall be deemed cancelled without
8 further act or action under any applicable agreement, law, regulation, order or rule, and the
9 obligations of the Debtor under the agreements and indentures governing such Claims, as the case
10 may be, shall be discharged. Notwithstanding the foregoing, the indentures for any of the Debtor's
11 debt securities shall be deemed to survive the Effective Date solely to effectuate distributions to be
12 made to holders of debt securities thereunder as provided in the Plan, and to enforce against such
13 distributions the rights, duties, charging liens and administrative functions of the indenture trustees
14 as provided in the respective indentures. Nothing in the Plan shall be deemed to impair, waive or
15 discharge any indenture trustees' rights, liens and priorities, or any other rights of the indenture
16 trustee under the respective indentures(s), against the distributions to the holders of debt securities
17 thereunder. The Common Stock and Preferred Stock representing Equity Interests shall remain
18 outstanding. Holders of notes, bonds, debentures and any and all other debt instruments evidencing
19 any Claim shall not be required to surrender such instruments.

20 Holders of promissory notes, bonds, debentures and any and all other debt instruments
21 evidencing any Claim shall not be required to surrender such instruments pursuant to the Plan.

22 **3. Termination of Committee.**

23 Pursuant to the Plan, the appointment of the Committee shall terminate on the Effective
24 Date, subject to continuation for specific purposes by a Final Order of the Bankruptcy Court.

25 **4. Effectuating Documents and Further Transactions.**

26 Pursuant to the Plan, each of the Parent, the Debtor, the Reorganized Debtor, and their
27 respective subsidiaries and affiliates are each authorized to execute, deliver, file or record such
28 contracts, instruments, releases, indentures and other agreements or documents and take such actions

1 as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the
2 Plan and any securities issued pursuant to the Plan.

3 **5. Corporate Governance.**

4 a. Board of Directors.

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

9 b. Officers.

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

13 c. Articles of Incorporation and Bylaws.

14 The Articles of Incorporation and Bylaws of the Reorganized Debtor shall contain
15 provisions necessary to (i) prohibit the issuance of nonvoting equity securities as required by section
16 1123(a)(6) of the Bankruptcy Code, subject to further amendment of such Articles of Incorporation
17 and Bylaws as permitted by applicable law and (ii) effectuate the provisions of the Plan, in each case
18 without any further action by the shareholders or Board of Directors of the Debtor.

19 **6. Execution of Proposed Settlement Agreement.**

20 Upon approval of the Proposed Settlement Agreement by the Commission and the
21 PG&E Proponents, the Settling Parties shall execute the Proposed Settlement Agreement.

22 **7. Exculpation.**

23 Pursuant to the Plan, as of and subject to the occurrence of the Confirmation Date,
24 (a) the Proponents shall be deemed to have negotiated the Plan in good faith, (b) the Proponents
25 shall be deemed to have solicited acceptances of the Plan in good faith and in compliance with the
26 applicable provisions of the Bankruptcy Code, including, without limitation, section 1125(a) of the
27 Bankruptcy Code, and any applicable non-bankruptcy law, rule or regulation governing the
28 adequacy of disclosure in connection with such solicitation, and (c) the Proponents and each of their

1 respective affiliates, agents, directors, officers, employees, advisors and attorneys shall be deemed to
2 have participated in good faith and in compliance with the applicable provisions of the Bankruptcy
3 Code in the offer and issuance of any securities under the Plan and, therefore, none of the Debtor,
4 the Debtor-in-Possession, the Parent, the Committee or any of their respective members, officers,
5 directors, employees, advisors, professionals or agents shall have or incur any liability to any holder
6 of a Claim or Equity Interest or other party in interest for any act or omission in connection with,
7 related to, or arising out of, the Chapter 11 Case, negotiations regarding or concerning the Plan, the
8 pursuit of confirmation of the Plan, the consummation of the Plan or the administration of the Plan
9 or the property to be distributed under the Plan, except for willful misconduct or gross negligence,
10 and, in all respects, the Debtor, the Debtor-in-Possession, the Parent, the Committee and each of
11 their respective members, officers, directors, employees, advisors, professionals and agents shall be
12 entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the
13 Plan; provided, however, that nothing in Section 11.7 of the Plan shall effect a release in favor of
14 any Person other than the Debtor with respect to any debt owed to any Governmental Entity for any
15 liability of such Person arising under (i) the Tax Code or any state, city or municipal tax code, or
16 (ii) the environmental laws of the United States or any state, city or municipality.

17 **8. Releases.**

18 a. Mutual Releases Between the PG&E Proponents and the Commission.

19 (i) Release of the Commission by the PG&E Proponents.

20 On or as soon as practicable after the later of the Effective Date or the date on
21 which the Commission approval of the Proposed Settlement Agreement is no longer subject to
22 appeal, the Debtor, the Debtor-in-Possession, the Reorganized Debtor and the Parent each releases
23 the Commission, its present and former commissioners and employees, and the advisors, consultants
24 and professionals of or to the Commission, in each case in their respective capacities as such, from
25 any and all Causes of Action held by, or assertable on behalf of, the Debtor or the Parent or
26 derivative of the Debtor's or the Parent's rights, that are expressly released, resolved or dismissed
27 pursuant to Paragraphs 9 and 10 of the Proposed Settlement Agreement.

28 (ii) Release of the PG&E Proponents by the Commission.

1 On or as soon as practicable after the later of the Effective Date or the date on
2 which the Commission approval of the Proposed Settlement Agreement is no longer subject to
3 appeal, the Commission, its present and former commissioners and employees, as well as the
4 advisors, consultants and professionals of or to the Commission, in each case in their respective
5 capacities as such, each releases the Debtor, the Debtor-in-Possession, the Reorganized Debtor and,
6 the Parent, in each case in any capacity, from any and all Causes of Action held by, assertable on
7 behalf of the Commission or derivative of the Commission's rights, that are expressly released,
8 resolved or dismissed pursuant to Paragraphs 9 and 10 of the Proposed Settlement Agreement.

9 b. Other Releases by the Debtor.

10 As of the Effective Date, and subject to the release by the Releasees set forth in Section
11 11.6 of the Plan, the Debtor, the Debtor-in-Possession and the Reorganized Debtor, each releases all
12 of the Releasees from any and all Causes of Action held by, assertable on behalf of the Debtor or
13 derivative of the Debtor's rights, in any way relating to the Debtor, the Debtor-in-Possession, the
14 Chapter 11 Case, the Plan, negotiations regarding or concerning the Plan, and the ownership,
15 management and operation of the Debtor and the Debtor-in-Possession, including, without
16 limitation, in the case of Parent, any transactions or transfers between the Parent and the Debtor and
17 any Cause of Action arising under chapter 5 of the Bankruptcy Code or any state fraudulent
18 conveyance statute; provided, however, that the foregoing shall not operate as a waiver of or release
19 from any Causes of Action arising out of any express contractual obligation owing by any former
20 director, officer or employee to the Debtor or any reimbursement obligation of any former director,
21 officer or employee with respect to a loan or advance made by the Debtor to such former director,
22 officer or employee and is not a waiver of or release for any professionals retained in connection
23 with this Chapter 11 Case from claims by their respective clients. The releases by the Debtor, the
24 Debtor-in-Possession and the Reorganized Debtor include, without limitation, all claims in the
25 lawsuits referenced in Section VIII.B, above, under Section 17200 of the California Business and
26 Professions Code that are determined to be property of the Debtor's estate, but do not include such
27
28

1 claims as are determined not to be property of the Debtor's estate.²⁴

2 c. Limited Release by Releasees.

3 In consideration for the release of the Releasees and other valuable consideration, as of
4 the Effective Date, each of the Releasees, at its option, releases the Debtor, the Debtor-in-
5 Possession, the Reorganized Debtor, the Parent, and their respective subsidiaries and affiliates, in
6 each case in any capacity, from any and all Causes of Action held by, assertable on behalf of or
7 derivative from such Releasee, in any way relating to the Debtor, the Debtor-in-Possession, the
8 Chapter 11 Case, the Plan, negotiations regarding or concerning the Plan, and the ownership,
9 management and operation of the Debtor and Debtor-in-Possession. The release by the Debtor, the
10 Debtor-in-Possession and the Reorganized Debtor in Section 11.5 of the Plan shall be provided only
11 to Releasees who execute and deliver to the Debtor, the Debtor-in-Possession and the Reorganized
12 Debtor a release as provided in Section 11.6 of the Plan and in a form acceptable to the Debtor, the
13 Debtor-in-Possession and the Reorganized Debtor.

14 **9. Plan Supplement.**

15 Certain schedules to the Plan are contained in the Plan Supplement filed with the Clerk
16 of the Bankruptcy Court, including the schedules of executory contracts and unexpired leases to be
17 rejected pursuant to the Plan and the schedules of Certain Causes of Action as set forth in Section
18 11.16 of the Plan.

19 The Plan Supplement may be inspected in the Office of the Clerk of the Bankruptcy
20 Court during normal court hours or through the "Pacific Gas & Electric Company Chapter 11 Case"
21 link available through the website maintained by the Bankruptcy Court at
22 <http://www.canb.uscourts.gov>. The Plan Supplement is listed under docket number 13174 and a
23 subsequent Errata to the Plan Supplement is listed under docket number 13211. In addition, holders
24 of Claims or Equity Interests may obtain a copy of the Plan Supplement upon written request to the
25

26 ²⁴The City and County of San Francisco disputes that the Debtor, the Debtor-in-Possession, or
27 the Reorganized Debtor has the authority to release any claim that ratepayers have against the
28 Parent, whether such claim is direct or derivative of another party, including, without limitation, the
claims referenced in Section VIII.*, even if such claim is determined to be property of the Debtor.

1 Debtor at the address set forth in Section 11.13 of the Plan.

2 **10. Retention of Jurisdiction**

3 Pursuant to the Plan, the Bankruptcy Court shall have exclusive jurisdiction of all
4 matters arising out of, or related to, the Chapter 11 Case and the Plan pursuant to, and for the
5 purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the
6 following purposes:

- 7 (i) to hear and determine applications for the assumption or rejection of
8 executory contracts or unexpired leases, if any are pending, and the
9 allowance of cure amounts and Claims resulting therefrom;
- 10 (ii) to hear and determine any and all adversary proceedings, applications
11 and contested matters;
- 12 (iii) to hear and determine any objection to Administrative Expense Claims
13 or, except as provided in Section 4.15(c) of the Plan, to Claims;
- 14 (iv) to enter and implement such orders as may be appropriate in the event
15 the Confirmation Order is for any reason stayed, revoked, modified or
16 vacated;
- 17 (v) to issue such orders as may be necessary in aid of execution and
18 consummation of the Plan, to the extent authorized by section 1142 of
19 the Bankruptcy Code;
- 20 (vi) to consider any amendments to or modifications of the Plan, to cure
21 any defect or omission, or reconcile any inconsistency in any order of
22 the Bankruptcy Court, including, without limitation, the Confirmation
23 Order;
- 24 (vii) to hear and determine all applications for compensation and
25 reimbursement of expenses of professionals under sections 330, 331
26 and 503(b) of the Bankruptcy Code;
- 27 (viii) to hear and determine disputes arising in connection with the
28 interpretation, implementation or enforcement of the Proposed
Settlement Agreement, the Plan and/or the Confirmation Order;
- (ix) to hear and determine proceedings to recover assets of the Debtor and
property of the Debtor's estate, wherever located;
- (x) to hear and determine matters concerning state, local and federal taxes
in accordance with sections 346, 505 and 1146 of the Bankruptcy
Code;
- (xi) to hear and determine matters concerning the escrow(s), if any,
established pursuant to Section 5.4(g) of the Plan;
- (xii) to hear and determine any other matter not inconsistent with the
Bankruptcy Code; and

1 (xiii) to enter a final decree closing the Chapter 11 Case.

2 The Confirmation Order shall provide that the Chapter 11 Case shall not qualify as
3 “fully administered” within the meaning of section 350 of the Bankruptcy Code and Rule 3022 of
4 the Bankruptcy Rules, and a final decree shall not be entered in the Chapter 11 Case, until the later
5 of (i) nine (9) years after the Effective Date, and (ii) the date the Regulatory Asset shall have been
6 fully amortized in the Reorganized Debtor’s Retail Electric Rates.

7 **11. Exemption from Transfer Taxes.**

8 Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer or exchange
9 of notes or issuance of debt or equity securities under the Plan, the creation of any mortgage, deed of
10 trust or other security interest under the Plan, the making or assignment of any lease or sublease
11 under the Plan, or the making or delivery of any instrument of transfer under the Plan shall not be
12 subject to any stamp, real estate transfer, documentary transfer, mortgage recording, or other similar
13 tax.

14 **12. Fees and Expenses.**

15 Subject to section 1129(a)(4) and other provisions of the Bankruptcy Code and subject
16 to the provisions of Paragraph 13d of the Proposed Settlement Agreement regarding limitations on
17 the fees of UBS Warburg LLC and Lehman Brothers, in each case, to the extent applicable, as of the
18 Confirmation Date, the Debtor shall reimburse the Parent and the Commission for all of their
19 respective professional fees and expenses incurred in connection with the Chapter 11 Case (such
20 fees and expenses of the Commission to include those of Paul, Weiss, Rifkind, Wharton & Garrison
21 LLP, UBS Warburg LLC and Chanin Capital Partners) without the need for any application under
22 section 330 or 503(b) of the Bankruptcy Code.²⁵ If it is determined by Bankruptcy Court order that
23 such an application is required for all or any part of such fees and expenses to be reimbursed by the
24 Debtor, then none of the Proponents nor the Commission will object to such application and shall
25 support such application in a written pleading to be filed with the Bankruptcy Court, and all such
26

27 ²⁵The United States Trustee contends that payment under Section 1129(a)(4) of the
28 Bankruptcy Code is subject to the requirements of Section 503(b).

1 fees and expenses shall be allowed and treated as Administrative Expense Claims in the amount
2 approved by the Bankruptcy Court. On a monthly basis thereafter, the Debtor shall reimburse the
3 Parent and the Commission for any and all fees and expenses of professional Persons thereafter
4 reasonably incurred by the Parent and the Commission directly in connection with the
5 consummation of the Plan. The Parent currently estimates that it will seek reimbursement for fees
6 and expenses of approximately \$125 million comprised of the following: legal fees of
7 approximately \$96 million, financing costs of approximately \$20 million and accounting fees of
8 approximately \$9 million. The vast majority of professional fees to be reimbursed to the
9 Commission are legal fees relating to the Chapter 11 Case, which the Commission has budgeted at
10 approximately \$26 million.

11 From and after the Confirmation Date and to the Effective Date, the Debtor shall, in the
12 ordinary course of business and without the necessity for any approval by the Bankruptcy Court, pay
13 the reasonable fees and expenses of those professional Persons employed by or on behalf of the
14 Debtor and/or the Debtor's bankruptcy estate by order of the Bankruptcy Court, thereafter incurred,
15 including, without limitation, those fees and expenses incurred in connection with the
16 implementation and consummation of the Plan.

17 **13. Payment of Statutory Fees.**

18 The Debtor or the Reorganized Debtor shall pay on or before the Effective Date any
19 unpaid fees payable on or before the Effective Date pursuant to section 1930 of title 28 of the United
20 States Code, as determined by the Bankruptcy Court at the Confirmation Hearing. In addition, the
21 Reorganized Debtor shall timely pay all fees payable pursuant to section 1930(a)(6) of title 28 of the
22 United States Code after the Effective Date, until the time the Bankruptcy Court enters a final decree
23 closing the Chapter 11 Case.

24 **14. Binding Effect.**

25 The Plan shall be binding upon and inure to the benefit of the Proponents, the
26 Reorganized Debtor, their respective subsidiaries and affiliates, the holders of Claims and Equity
27 Interests, all parties to the Proposed Settlement Agreement, other parties in interest, and the
28 respective successors and assigns of each of the foregoing.

1 **15. Governing Law**

2 Except to the extent the Bankruptcy Code, the Bankruptcy Rules or other federal law is
3 applicable, or to the extent an exhibit to the Plan provides otherwise, the rights and obligations
4 arising under the Plan shall be governed by, and construed and enforced in accordance with, the
5 laws of the State of California, without giving effect to the principles of conflicts of law of such
6 jurisdiction; provided, however, that under all circumstances, the Plan, the Proposed Settlement
7 Agreement, and any orders of the Bankruptcy Court (including the Confirmation Order) are intended
8 to be enforceable under federal law notwithstanding any contrary state law.

9 **16. Withholding and Reporting Requirements.**

10 In connection with the consummation of the Plan, the Debtor shall comply with all
11 applicable withholding and reporting requirements imposed by any federal, state, local or foreign
12 taxing authority and all distributions hereunder shall be subject to any such withholding and
13 reporting requirements.

14 **17. Allocation of Plan Distributions.**

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

19 **18. Preservation of Certain Claims.**

20 Schedule 11.16 to the Plan Supplement will contain a list of certain contingent and
21 unliquidated claims of the Debtor against third parties. The Debtor (and after the Effective Date, the
22 Reorganized Debtor) retains these claims, as well as any claims that are or were discovered after the
23 date of the Plan, and reserves its rights to pursue such claims in any appropriate forum, either prior
24 to the Effective Date (as to the Debtor) or after the Effective Date (as to the Reorganized Debtor),
25 except as otherwise provided in the Plan.

26 **19. Subrogation Rights.**

27 The subrogation rights of any surety, to the extent applicable or available, shall be
28 unaffected by this Disclosure Statement or any provisions of the Plan and, if applicable or available,

1 shall remain in full force and effect. In addition, the rights of the Debtor to object, pursuant to the
2 Bankruptcy Code, to the existence of any such subrogation rights shall be unaffected by this
3 Disclosure Statement or any provisions of the Plan.

4 **X. CONFIRMATION AND CONSUMMATION PROCEDURE**

5 Under the Bankruptcy Code, the following steps must be taken to confirm the Plan:

6 **A. SOLICITATION OF VOTES.**

7 In accordance with sections 1126 and 1129 of the Bankruptcy Code, the Claims and
8 Equity Interests in Classes 3a, 3b, 4a, 4c, 4e, 5, 6 and 7²⁶ are impaired, and the holders of Allowed
9 Claims in each of such Classes are entitled to vote to accept or reject the Plan. If the Debtor objects
10 to a Claim, the Claim becomes a Disputed Claim. A Disputed Claim is not entitled to vote on the
11 Plan unless the Debtor or the holder of the Disputed Claim obtains an order of the Bankruptcy Court
12 temporarily allowing the Disputed Claim for voting purposes. If the Debtor does not object to a
13 Claim prior to the date on which the Disclosure Statement and the Ballots are transmitted to
14 creditors for voting, the holder of such Claim will be permitted to vote on the Plan in the full amount
15 of the Claim as filed, unless the Bankruptcy Court orders otherwise. Claims and Equity Interests in
16 Classes 1, 2, 4b, 4d, 4f, 4g, 8, 9, 10, 11 and 12 are unimpaired. Accordingly, the holders of Allowed
17 Claims and Equity Interests in each of such Classes are conclusively presumed to have accepted the
18 Plan, and the solicitation of acceptances with respect to such Classes is not required under section
19 1126(f) of the Bankruptcy Code.

20 The Bankruptcy Code defines “acceptance” of a plan by a class of claims as acceptance
21 by creditors in such class holding at least two-thirds ($\frac{2}{3}$) in dollar amount and more than one-half
22 ($\frac{1}{2}$) in number of the allowed claims in such class casting ballots for acceptance or rejection of the
23 plan. The Bankruptcy Code defines “acceptance” of a plan by a class of equity interests as
24 acceptance by holders in such class holding at least two-thirds ($\frac{2}{3}$) in amount of the allowed
25 interests casting ballots for acceptance or rejection of the plan.

26
27 ²⁶See discussion in Sections IX.A.17 and IX.A.18 of this Disclosure Statement regarding the
28 classification and voting rights of Classes 6 and 7.

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

4 **B. THE CONFIRMATION HEARING.**

5 The Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a
6 confirmation hearing. The Confirmation Hearing in respect of the Plan has been scheduled for
7 November 3, 2003, commencing at 9:30 a.m., Pacific Time, before the Honorable Dennis Montali,
8 United States Bankruptcy Judge, at the United States Bankruptcy Court for the Northern District of
9 California, 235 Pine Street, San Francisco, California 94014, or such other location as the
10 Bankruptcy Court directs. The Confirmation Hearing may be continued from time to time by the
11 Bankruptcy Court without further notice except for the announcement of the continuation date made
12 at the Confirmation Hearing or at any subsequent continued Confirmation Hearing. Any objection
13 to confirmation must be made in writing and specify in detail the name and address of the objector,
14 all grounds for the objection and the amount of the Claim or securities of the Debtor held by the
15 objector. Any such objection must be filed with the Bankruptcy Court and served so that it is
16 received by the Bankruptcy Court with two copies to chambers, together with proof of service
17 thereof, and served upon and received by the following parties no later than September 2, 2003 at
18 4:00 p.m., Pacific Time:

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 PG&E Corporation
25 One Market, Spear Street Tower
26 Suite 2400
27 San Francisco, California 94105
28 Attn: General Counsel

Howard, Rice, Nemerovski, Canady,
Falk & Rabkin
A Professional Corporation
Three Embarcadero Center, 7th Floor
San Francisco, California 94111
Attn: James L. Lopes

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

Cooley Godward LLP
One Maritime Plaza, 20th Floor
San Francisco, California 94111
Attn: Martin S. Schenker

Orrick, Herrington & Sutcliffe LLP
Old Federal Reserve Bank Building
400 Sansome Street
San Francisco, California 94111
Attn: Joseph M. Malkin

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153
Attn: Michael P. Kessler

Dewey Ballantine LLP
700 Louisiana, Suite 1900
Houston, Texas 77002
Attn: Alan Gover

Milbank, Tweed, Hadley & McCloy LLP
601 South Figueroa Street, 30th Floor
Los Angeles, California 90017
Attn: Paul S. Aronzon

The Office of the United States Trustee
250 Montgomery Street, Suite 1000
San Francisco, California 94104
Attn: Patricia Cutler

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102
Attn: Arcoles Aguilar

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

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014. **UNLESS AN
OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED, IT MAY NOT BE
CONSIDERED BY THE BANKRUPTCY COURT.**

C. CONFIRMATION.

At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of

1 the requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for
2 confirmation of a plan are that the plan is (i) accepted by all impaired classes of claims and equity
3 interests or, if rejected by an impaired class, that the plan “does not discriminate unfairly” and is
4 “fair and equitable” as to such class, (ii) feasible and (iii) in the “best interests” of creditors and
5 shareholders that are impaired under the plan.

6 **1. Acceptance.**

7 The following classes of Claims are impaired, will receive distributions under the Plan
8 and are entitled to vote to accept or reject the Plan: Class 3a—Secured Claims Relating to First and
9 Refunding Mortgage Bonds, Class 3b—Secured Claims Relating to PC-Related Mortgage Bonds,
10 Class 4a—Mortgage Backed PC Bond Claims, Class 4c—MBIA Claims, Class 4e—Letter of Credit
11 Bank Claims, and Class 5—General Unsecured Claims.

12 The following classes of Claims and Equity Interests are unimpaired and, therefore, are
13 conclusively presumed to have accepted the Plan: Class 1—Other Priority Claims, Class 2—Other
14 Secured Claims, Class 4b—MBIA Insured PC Bond Claims, Class 4d—Letter of Credit Backed PC
15 Bond Claims, Class 4f—Prior Bond Claims, Class 4g—Treasury PC Bond Claims, Class 6—ISO,
16 PX and Generator Claims, Class 7—ESP Claims,²⁷ Class 8—Environmental, Fire Suppression,
17 Pending Litigation and Tort Claims, Class 9—QUIDS Claims, Class 10—Workers’ Compensation
18 Claims, Class 11—Preferred Stock Equity Interests, and Class 12—Common Stock Equity Interests.

19 The Proponents reserve the right to amend the Plan in accordance with its terms or seek
20 nonconsensual confirmation of the Plan under section 1129(b) of the Bankruptcy Code, or both,
21 with respect to any Class of Claims that is entitled to vote to accept or reject the Plan, if such Class
22 rejects the Plan.

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

24 To obtain nonconsensual confirmation of the Plan, it must be demonstrated to the
25 Bankruptcy Court that the Plan “does not discriminate unfairly” and is “fair and equitable” with
26

27 ²⁷See discussion in Section IX.A.17 and IX.A.18 regarding classification and voting rights of
28 Class 6 and Class 7 Claims.

1 respect to each impaired, nonaccepting class. The Bankruptcy Code provides a non-exclusive
2 definition of the phrase “fair and equitable.” The Bankruptcy Code establishes “cram down” tests
3 for secured creditors, unsecured creditors and equity holders, as follows:

- 4 ? Secured Creditors. Either (a) each impaired secured creditor retains its liens
5 securing its secured claim and receives on account of its secured claim deferred
6 cash payments totaling, and having a present value as of the effective date of the
7 plan equal to, at least the amount of its allowed secured claim, (b) each impaired
8 secured creditor realizes the “indubitable equivalent” of its allowed secured claim
9 or (c) the property securing the claim is sold free and clear of liens with such liens
10 to attach to the proceeds of the sale and the treatment of such liens on proceeds to
11 be as provided in clause (a) or (b) above.
- 12 ? Unsecured Creditors. Either (a) each impaired unsecured creditor receives or
13 retains as of the effective date of the plan property of a value equal to the amount of
14 its allowed claim or (b) the holders of claims and interests that are junior to the
15 claims of the non-accepting class will not receive any property under the plan.
- 16 ? Equity Interests. Either (a) each impaired holder of an equity interest will receive
17 or retain as of the effective date of the plan property of a value equal to the greatest
18 of the fixed liquidation preference to which such holder is entitled, the fixed
19 redemption price to which such holder is entitled or the value of the interest or
20 (b) the holder of any interest that is junior to the nonaccepting class will not receive
21 or retain any property under the plan.

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

26 The Proponents believe and will demonstrate at the Confirmation Hearing that the Plan
27 “does not discriminate unfairly” and is “fair and equitable” with respect to each impaired Class that
28 does not vote to accept the Plan.

3. Feasibility.

The Bankruptcy Code permits a plan to be confirmed if it is not likely to be followed by
liquidation or the need for further financial reorganization. For purposes of determining whether the
Plan meets this requirement, the Debtor has analyzed its ability to meet its obligations under the
Plan. As part of this analysis, the Debtor has prepared projections of its financial performance for
the period from January 1, 2004 through December 31, 2008 (the “Projection Period”). These
projections, and the assumptions on which they are based, are included in the Projected Financial

1 Information, annexed hereto as Exhibit C. Based upon such projections, the Proponents believe that
2 the Reorganized Debtor will be able to make all payments and distributions required pursuant to the
3 Plan and continue to operate as viable businesses, and, therefore, that confirmation of the Plan is not
4 likely to be followed by liquidation or the need for further reorganization.

5 The projections are based on the assumption that the Plan will be confirmed by the
6 Bankruptcy Court and, for projection purposes, that the Effective Date of the Plan will occur on
7 January 1, 2004. Although there can be no assurance as to the exact timing of the Effective Date,
8 the Debtor believes that the financial projections and the feasibility of the Plan will not be adversely
9 impacted by an Effective Date occurring at any time during 2004.

10 The financial projections have been prepared based upon certain assumptions that the
11 Debtor believes to be reasonable under the circumstances, taking into account the purpose for which
12 they were prepared. Those assumptions considered to be significant are described in the financial
13 projections, which are annexed hereto as Exhibit C. However, the financial projections were not
14 prepared with a view toward compliance with the published guidelines of the SEC or the American
15 Institute of Certified Public Accountants regarding projections or forecasts. In addition, the
16 financial projections have not been examined or compiled by the independent accountants of the
17 Debtor or the Parent. Neither the Debtor nor the Parent makes any representation as to the accuracy
18 of the projections. Many of the assumptions on which the projections are based are subject to
19 significant uncertainties. Inevitably, some assumptions will not materialize and unanticipated events
20 and circumstances may affect the actual financial results. Therefore, the actual results achieved
21 throughout the Projection Period may vary from the projected results and the variations may be
22 material. All holders of Claims and Equity Interests that are entitled to vote to accept or reject the
23 Plan are urged to examine carefully all of the assumptions on which the financial projections are
24 based in connection with their evaluation of the Plan.

25 **4. Best Interests Test.**

26 With respect to each impaired Class of Claims and Equity Interests, confirmation of the
27 Plan requires that each holder of a Claim or Equity Interest either (a) accepts the Plan or (b) receives
28 or retains under the Plan property of a value, as of the Effective Date, that is not less than the value

1 such holder would receive if the Debtor were liquidated under chapter 7 of the Bankruptcy Code.
2 To determine the recovery that holders of Claims and Equity Interests in each impaired Class would
3 receive if the Debtor was liquidated under chapter 7, the Bankruptcy Court must determine the
4 dollar amount that would be generated from the liquidation of the Debtor's assets and properties in
5 the context of a chapter 7 liquidation case. The Cash amount that would be available for satisfaction
6 of Claims and Equity Interests would consist of the proceeds resulting from the disposition of the
7 unencumbered assets and properties of the Debtor, augmented by the unencumbered Cash held by
8 the Debtor at the time of the commencement of the liquidation case. Such Cash amount would be
9 reduced by the costs and expenses of liquidation and by such additional administrative and priority
10 claims that might result from the termination of the Debtor's business and the use of chapter 7 for
11 the purposes of liquidation.

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

22 To determine if the Plan is in the best interests of each impaired Class, the value of the
23 distributions from the proceeds of a liquidation of the Debtor's unencumbered assets and properties,
24 after subtracting the amounts attributable to the foregoing claims, fees, costs and expenses, must be
25 compared with the value of the property to be provided to such Classes of Claims under the Plan.

26 After considering the effects that a chapter 7 liquidation would have on the ultimate
27 proceeds available for distribution to creditors in the Chapter 11 Case, including (a) the increased
28 costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in

1 bankruptcy and professional advisors to such trustee, (b) the erosion in value of assets in a chapter 7
2 case in the context of the expeditious liquidation required under chapter 7 and the “forced sale”
3 atmosphere that would prevail and (c) the substantial increases in claims that would be required to
4 be satisfied on a priority basis or on parity with creditors in the Chapter 11 Case, the Debtor has
5 determined that confirmation of the Plan will provide each holder of an Allowed Claim with a
6 recovery that is not less than what such holder would receive pursuant to the liquidation of the
7 Debtor under chapter 7.

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

17 Under the Plan, all Allowed Claims and Equity Interests will be paid in full, together
18 with Post-Petition Interest. Accordingly, the Proponents do not believe a financial liquidation
19 analysis presentation is required or would be useful because payment in full of all Allowed Claims
20 and Equity Interests is a per se satisfaction of the best interests test.

21 **D. CONSUMMATION.**

22 The Plan will be consummated on the Effective Date. The Effective Date of the Plan
23 will occur on the tenth (10th) Business Day after the Distribution Record Date. The Distribution
24 Record Date, as defined in the Plan, is the first Business Day after the date on which the conditions
25 specified in Section 8.2 of the Plan (Conditions Precedent to Effectiveness) have been satisfied or
26 waived by the Proponents. See Section IX.H of this Disclosure Statement for a more detailed
27 discussion of the conditions precedent to the Effective Date of the Plan and the consequences of the
28 failure to meet such conditions.

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

3 **XI. FINANCIAL INFORMATION**

4 The audited consolidated balance sheets and the related consolidated statements of
5 operations, shareholders' equity (deficit) and cash flow for the years ended December 31, 2000,
6 2001 and 2002, of the Parent and its subsidiaries are filed with the SEC and incorporated herein by
7 reference. This financial information is provided to permit the holders of Claims and Equity
8 Interests to better understand the Debtor's historical business performance and the impact of the
9 Chapter 11 Case on the Debtor's business.

10 The Debtor is required to file monthly operating reports with the Bankruptcy Court.
11 Such financial information is on file with the Bankruptcy Court and may be reviewed in the office of
12 the Clerk of the Bankruptcy Court during normal court hours or through the "Pacific Gas & Electric
13 Company Chapter 11 Case" link available through the website maintained by the Bankruptcy Court
14 at <http://www.canb.uscourts.gov>. The monthly operating reports for the months of January 2003
15 through April 2003 are filed under the following docket numbers: January—12271; February—
16 12479; March—12756; April—12899; and May—13037.

17 **XII. SECURITIES LAWS MATTERS**

18 In reliance upon an exemption from the registration requirements of the Securities Act
19 and equivalent state securities laws afforded by section 1145 of the Bankruptcy Code, certain
20 securities that may be issued as of the Effective Date as provided in the Plan (the "Securities") will
21 be exempt from the registration requirements of the Securities Act and equivalent state securities
22 laws. Except with respect to "underwriters," section 1145(a) of the Bankruptcy Code generally
23 exempts from such registration the issuance of securities if the following conditions are satisfied:
24 (i) the securities are issued by a debtor (or its successor) under a plan; (ii) the recipients of the
25 securities hold a claim against, an interest in, or a claim for an administrative expense against the
26 debtor; and (iii) the securities are issued entirely in exchange for the recipient's claim against or
27 interest in the debtor, or are issued principally in such exchange and partly for cash or property. The
28 Debtor believes that the issuance of the New Mortgage Bonds under the circumstances provided in

1 the Plan will satisfy the requirements of section 1145(a) of the Bankruptcy Code.

2 **XIII. CERTAIN RISK FACTORS TO BE CONSIDERED**

3 ***HOLDERS OF CLAIMS AGAINST THE DEBTOR SHOULD READ AND***
4 ***CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER***
5 ***INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE***
6 ***DOCUMENTS DELIVERED TOGETHER HEREWITH AND/OR INCORPORATED BY***
7 ***REFERENCE HEREIN), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE***
8 ***RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE***
9 ***ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS***
10 ***IMPLEMENTATION.***

11 1. **Inability to Obtain Commission Approval of the Proposed Settlement**
12 **Agreement.**

13 The Proposed Settlement Agreement and the rates, tariffs and agreements it
14 contemplates, must be approved by the Commission after a public hearing process. The Proponents
15 expect that certain consumer advocacy groups and third parties will raise objections to the Proposed
16 Settlement Agreement or the rates, tariffs and agreements it contemplates. Although the Proponents
17 believe that the Proposed Settlement Agreement is fair, reasonable and in the public interest, there
18 can be no assurance that the Proposed Settlement Agreement will be approved, with or without
19 changes, by the Commission. The Debtor and the Parent are under no obligation to enter into and
20 proceed with the Proposed Settlement Agreement if it is approved subject to modifications by the
21 Commission. The Debtor and the Parent do not intend to agree to any substantive amendment or
22 modification to the Proposed Settlement Agreement that might be included in a Commission
23 decision. Even if the Commission approves the Proposed Settlement Agreement, and the rates,
24 tariffs and agreements it contemplates, one or more third parties may try to overturn that approval by
25 proceedings in state or federal courts, or in future Commission or Bankruptcy Court proceedings. It
26 is possible that these challenges could include contentions by parties that the Proposed Settlement
27 Agreement is unlawful because it seeks to bind future commissions, impermissibly delegates the
28 Commission's ratemaking authority, or allows recovery of costs not recoverable under state law.

1 The Proponents believe any such challenge is likely to be rejected by the courts, while certain other
2 parties disagree with that belief, and there can be no assurance regarding the outcome of such a
3 challenge.

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

5 Although the Proponents believe that the Plan will satisfy all requirements necessary for
6 confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court or any
7 court hearing an appeal from the Confirmation Order will reach the same conclusion. Moreover,
8 there can be no assurance that modifications to the Plan will not be required for confirmation or that
9 such modifications would not necessitate the resolicitation of votes. If the conditions precedent to
10 the Confirmation Date set forth in Section 8.1 of the Plan have not occurred or been waived, the
11 Plan shall not be confirmed by the Bankruptcy Court.

12 **3. Non-Consensual Confirmation.**

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

20 **4. Risk of Delay or Non-Occurrence of the Effective Date.**

21 While the Proponents anticipate that the Effective Date will occur by March 31, 2004,
22 there can be no assurance as to the timing of the Effective Date. For example, the time of the
23 Effective Date may be affected by delays in the Commission approval of the Proposed Settlement
24 Agreement, or by appeals or litigation relating to the Confirmation Order or the Commission
25 approvals. Additionally, S&P must issue a long-term issuer credit rating for the Reorganized Debtor
26 of not less than BBB-, and Moody's must issue an issuer rating for the Reorganized Debtor of not
27 less than Baa3. Although the Proponents anticipate that upon the Effective Date, the Reorganized
28 Debtor will have a long-term issuer credit rating of BBB- by S&P and an issuer credit rating of Baa3

1 by Moody's, and that the New Money Notes will have credit ratings of BBB- and Baa3,
2 respectively, from S&P and Moody's, if these credit rating agencies do not issue such ratings, the
3 Effective Date may not occur. If all of the conditions precedent to the Effective Date set forth in
4 Section 8.2 of the Plan have not occurred or been waived on or before March 31, 2004 (or such later
5 date as may be hereafter provided in an amended Section 8.2(a) of the Plan), the Confirmation Order
6 shall be vacated, in which event no distributions under the Plan would be made, the Debtor and all
7 holders of Claims and Equity Interests would be restored to the status quo ante as of the day
8 immediately preceding the Confirmation Date.

9 **5. Risks Relating to the Issuance of New Debt Securities.**

10 The principal source of funding for the payment of creditors under the Plan will be the
11 issuance of the New Money Notes, on the terms specified in Exhibit A to the Plan. It is a condition
12 to effectiveness of the Plan that the New Money Notes are rated at least BBB- and Baa3 by S&P and
13 Moody's, respectively, and that the Debtor be able to raise approximately \$8.7 billion from the sale
14 of the New Money Notes. In the event of a material adverse change in business or market
15 conditions, the Debtor could be unable to successfully complete the offering and sale of the New
16 Money Notes on acceptable terms. If the offering of the New Money Notes is unsuccessful, the
17 Proponents will be unable to consummate the Plan, in which event no distributions will be made
18 under the Plan. In addition, prior to the pricing of the New Money Notes, interest rates could
19 increase and be higher than the rates assumed for purposes of the projected financial information
20 attached hereto as Exhibit C. If interest rates increase substantially prior to the consummation of the
21 Plan, the Debtor may be unable to raise a sufficient amount of Cash to satisfy all Allowed Claims.
22 However, the Debtor contemplates entering into one or more interest rate hedging agreements to
23 reduce the risk of interest rate increases. Finally, the credit rating agencies' criteria could prevent
24 the New Money Notes from achieving the requisite credit rating.

25 **6. Effect of California Supreme Court Ruling**

26 In a currently pending case, the Supreme Court of California is considering whether the
27 Commission had the authority to enter into a settlement agreement with Southern California Edison
28 Company ("SCE"), in settlement of SCE's claims against the Commission in federal court under the

1 so-called “filed rate doctrine” (the “Commission/SCE Settlement Agreement”). The
2 Commission/SCE Settlement Agreement provided for the collection of certain under-collected
3 procurement and transition costs by SCE in light of California laws governing SCE’s retail
4 electricity rates during the period of electric industry restructuring and the energy crisis. The
5 California Supreme Court review of these legal questions results from an appeal filed by a consumer
6 group, The Utility Reform Network (“TURN”), and other parties in the Ninth Circuit federal court
7 of appeals seeking to overturn the stipulated judgment of the federal district court approving the
8 Commission/SCE Settlement Agreement and the Ninth Circuit’s subsequent order certifying certain
9 state law questions regarding the lawfulness of the settlement under state law to the California
10 Supreme Court. These questions include whether the Commission/SCE Settlement Agreement’s
11 requirements that the Commission maintain retail electricity rates for SCE at levels sufficient to
12 recover its under-collected costs violated Assembly Bill 1890 (“AB 1890”), the state law dictating
13 an initial rate freeze when restructuring began, and whether procedurally the Commission’s approval
14 of the settlement agreement in private without prior public notice violated state law requirements for
15 open meetings and public notice on rate-related issues. Although the Commission has represented
16 to the courts that it has authority to allow recovery of SCE’s under-collected costs in retail electricity
17 rates notwithstanding the legal challenge by TURN, it is possible that the outcome of the SCE case
18 could be applied in a manner that invalidates or undermines the Commission’s authority to approve
19 certain of the provisions of the Proposed Settlement Agreement with the Debtor.

20 The Proponents believe that, even if the Supreme Court of California finds the
21 Commission/SCE Settlement Agreement in violation of state law, there are independent legal and
22 factual reasons under which the Proposed Settlement Agreement and the Plan would still be valid
23 under state and federal law. The effectiveness of the Plan is not conditioned on receiving a
24 favorable ruling in the SCE case by the Supreme Court of California. However, if an adverse ruling
25 on the Commission/SCE Settlement Agreement case were applied against the Proposed Settlement
26 Agreement, and other independent justifications for the Commission’s authority to enter into the
27 Proposed Settlement Agreement were deemed invalid, the Debtor may be unable to implement the
28 Plan.

1 **7. Risks Relating to the Business of the Reorganized Debtor After the Effective**
2 **Date**

3 The Reorganized Debtor’s risks relating to business after the Effective Date include,
4 without limitation, the following: price risk associated with variability in power prices for Northern
5 and Central California; the impact of future ratemaking and regulatory actions of the Commission;
6 competition from gas pipelines and storage operators serving customers in areas currently served by
7 the Debtor; the potential ability of customers to “bypass” the Reorganized Debtor’s facilities by
8 taking service from other sources (e.g., through self-generation, municipalization by condemnation
9 of the Reorganized Debtor’s assets, and construction of duplicate distribution facilities by public
10 entities), thereby impairing cost recovery for investments made on behalf of customers and
11 potentially “stranding” power procurement obligations; and potential exposure to environmental
12 liabilities (including unknown, remote or non-estimable environmental cleanup contingencies) that
13 are not recoverable in rates.

14 **8. Risks Related to NEG**

15 PG&E National Energy Group, Inc. (“NEG”) is a “sister company” of the Debtor, and a
16 principal subsidiary of the Parent. NEG is engaged in power generation, wholesale energy
17 marketing and trading, risk management and natural gas transmission. NEG and certain of its
18 subsidiaries were in default under various debt agreements and guaranteed equity commitments
19 totaling approximately \$5.6 billion as of March 31, 2003, of which approximately \$2.7 billion was
20 non-recourse to NEG. On July 8, 2003, NEG and certain of its indirect wholly owned subsidiaries
21 filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the United States
22 Bankruptcy Court for the District of Maryland, Greenbelt Division. NEG has filed a proposed plan
23 of reorganization in its chapter 11 case. If confirmed and implemented, the Parent would no longer
24 have any equity interest in NEG.

25 While the Debtor believes that it will not be materially affected by NEG’s bankruptcy,
26 the Debtor cannot be certain that the NEG bankruptcy will not materially affect it and its ability to
27 consummate the Plan. A party in interest in the NEG bankruptcy case could attempt to substantively
28 consolidate the assets and liabilities of the Debtor with those of NEG. The Debtor does not believe

1 such an attempt would be successful; however, there is no assurance that such an attempt will not be
2 made or that the Debtor would be successful in defending against such attempt.

3 **XIV. DESCRIPTION OF CERTAIN CLAIMS**

4 **A. POLLUTION CONTROL BONDS.**

5 **1. General.**

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

14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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

	<u>Series</u>	<u>Original Principal Amount</u>
1		
2		
3	California Pollution Control Financing	\$160,000,000
4	Authority, Pollution Control Refunding	
5	Revenue Bonds (Pacific Gas and Electric	
6	Company) \$160,000,000 1996 Series B (the	
7	“96B Bonds”)	
8		
9	California Pollution Control Financing	\$200,000,000
10	Authority, Pollution Control Refunding	
11	Revenue Bonds (Pacific Gas and Electric	
12	Company) \$200,000,000 1996 Series C (the	
13	“96C Bonds”)	
14		
15	California Pollution Control Financing	\$100,000,000
16	Authority, Pollution Control Refunding	
17	Revenue Bonds (Pacific Gas and Electric	
18	Company) \$100,000,000 1996 Series D (the	
19	“96D Bonds”)	
20		
21	California Pollution Control Financing	\$165,000,000
22	Authority, Pollution Control Refunding	
23	Revenue Bonds (Pacific Gas and Electric	
24	Company) \$165,000,000 1996 Series E (the	
25	“96E Bonds”)	
26		
27	California Pollution Control Financing	\$100,000,000
28	Authority, Pollution Control Refunding	
29	Revenue Bonds (Pacific Gas and Electric	
30	Company) \$100,000,000 1996 Series F (the	
31	“96F Bonds”)	
32		
33	California Pollution Control Financing	\$62,870,000
34	Authority, Pollution Control Refunding	
35	Revenue Bonds (Pacific Gas and Electric	
36	Company) 1996 Series G (the “96G Bonds”)	
37		
38	California Pollution Control Financing	\$45,000,000
39	Authority, Pollution Control Refunding	
40	Revenue Bonds (Pacific Gas and Electric	
41	Company) 1997 Series A (the “97A Bonds”)	
42		
43	California Pollution Control Financing	\$148,550,000
44	Authority, Pollution Control Refunding	
45	Revenue Bonds (Pacific Gas and Electric	
46	Company) 1997 Series B (the “97B Bonds”)	
47		
48	California Pollution Control Financing	\$148,550,000
49	Authority, Pollution Control Refunding	
50	Revenue Bonds (Pacific Gas and Electric	
51	Company) 1997 Series C (the “97C Bonds”)	
52		

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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

Series

Original Principal Amount

California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series D (the “97D Bonds”)

\$17,900,000

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

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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

Pursuant to the terms of each of the Indentures, the Issuer has assigned to the Bond Trustee, for the benefit of the holders of the respective series of PC Bonds, certain of the Issuer’s rights under the various Loan Agreements, including, but not limited to, the Issuer’s right under the Loan Agreements to receive payments from the Debtor of the principal of, premium, if any, and interest due, on the Bond Loans. In this manner, the Issuer has acted solely as a conduit, loaning the

1 proceeds from the sale of the PC Bonds to the Debtor and assigning its right to receive repayment of
2 such loans to the Bond Trustee as security for the PC Bonds and to provide funds for the full
3 payment of the respective PC Bonds.

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

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

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

23 **2. Mortgage Backed PC Bonds.**

24 With respect to each series of Mortgage Backed PC Bonds, in order to secure its
25 obligation to repay the Bond Loan made by the Issuer to the Debtor of the proceeds from the sale of
26 the Mortgage Backed PC Bonds, the Debtor delivered to the Bond Trustee certain of its First and
27 Refunding Mortgage Bonds in an aggregate principal amount equal to the related series of Mortgage
28 Backed PC Bonds. Each series of PC-Related Mortgage Bonds delivered to the Bond Trustee to

1 secure a series of Mortgage Backed PC Bonds provides for payments on such PC-Related Mortgage
2 Bonds at the times and in the amounts necessary to allow the Bond Trustee to make full and timely
3 payment of the principal of, premium, if any, and interest on the related series of Mortgage Backed
4 PC Bonds.

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

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

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

24 Each Letter of Credit was issued in an initial stated amount (the "Stated Amount") equal
25 to the sum of (i) the aggregate outstanding principal amount of the related series of Letter of Credit
26 Backed PC Bonds (the "Principal Portion"), plus (ii) an amount equal to the amount of accrued
27 interest on the outstanding principal amount of the related series of Letter of Credit Backed PC
28 Bonds at an assumed maximum annual rate for a specified period of days as set forth in the Letter of

1 Credit (the “Interest Portion”). The Stated Amount of each Letter of Credit is reduced by the
2 amount of each drawing paid thereunder, subject to the provision that (i) with respect to amounts
3 drawn for the payment of interest on the related Letter of Credit Backed PC Bonds, the Interest
4 Portion of the Stated Amount is automatically reinstated unless the Letter of Credit Issuing Bank
5 gives notice to the contrary to the Bond Trustee in accordance with the terms of the applicable Letter
6 of Credit, and (ii) with respect to amounts drawn to pay the purchase price of Letter of Credit
7 Backed PC Bonds, the amount so drawn is subject to reinstatement upon the terms set forth in the
8 applicable Letter of Credit.

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

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

26 **4. MBIA Insured PC Bonds.**

27 The Debtor has entered into a reimbursement and indemnity agreement (defined in the
28 Plan as the “MBIA Reimbursement Agreement”) with MBIA Insurance Corporation (“MBIA”)

1 pursuant to which MBIA has issued its financial guaranty insurance policy (defined in the Plan as
2 the “PC Bond Insurance Policy”) insuring the full payment of regularly scheduled principal of and
3 interest (but not premium) on the MBIA Insured PC Bonds.

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

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

24 **5. Prior Bonds.**

25 With respect to each series of Prior Bonds, the Debtor entered into a reimbursement
26 agreement (each defined in the Plan as a “Prior Reimbursement Agreement”) with a national
27 banking association (each defined in the Plan as a “Prior Letter of Credit Issuing Bank”) pursuant to
28 which the Prior Letter of Credit Issuing Bank issued its irrevocable letter of credit (each defined in

1 the Plan as a “Prior Letter of Credit”) to the Bond Trustee, for the account of the Debtor, to secure
2 the payment of the principal of and interest on the related series of Prior Bonds and to provide for
3 the payment of the purchase price of such Prior Bonds tendered for purchase in accordance with the
4 terms of the applicable Indenture. Under the terms of each Prior Reimbursement Agreement, the
5 Debtor was obligated to reimburse the Prior Letter of Credit Issuing Bank for, among other things,
6 all amounts drawn on the related Prior Letter of Credit.

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

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

20 With respect to each series of Prior Bonds, under the terms of the respective Prior
21 Reimbursement Agreement the Debtor is obligated to reimburse the respective Prior Letter of Credit
22 Issuing Bank for, among other things, the amount drawn under the related Prior Letter of Credit
23 which was applied to the payment of the redemption price of the Prior Bonds (that portion of the
24 reimbursement obligation of the Debtor under the Prior Reimbursement Agreement arising with
25 respect to the portion of the final drawing made under the related Prior Letter of Credit for the
26 payment of the principal portion of the redemption price of the related series of Prior Bonds,
27 referred to in the Plan as the “Reimbursement Obligation”).
28

1 **6. Treasury PC Bonds.**

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

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

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

19 **XV. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN**

20 **A. INTRODUCTION.**

21 The following discussion summarizes certain federal income tax consequences of the
22 implementation of the Plan to the Debtor and certain holders of Claims. The following summary
23 does not address the federal income tax consequences to holders whose Claims and Equity Interests
24 are entitled to reinstatement or payment in full in Cash (other than those that are entitled to vote on
25 the Plan), or are unimpaired under the Plan (e.g., holders of Administrative Expense Claims,
26 Professional Compensation and Reimbursement Claims, Priority Tax Claims, Other Priority Claims,
27 Other Secured Claims, Secured Claims Relating to PC-Related Mortgage Bonds, MBIA Insured PC
28 Bond Claims, Letter of Credit Backed PC Bond Claims, Prior Bond Claims, Treasury PC Bond

1 Claims, Environmental, Fire Suppression, Pending Litigation and Tort Claims, Convenience Claims,
2 QUIDs Claims and Workers' Compensation Claims). Additionally, this summary does not address
3 the federal income tax consequences to holders of MBIA Claims and Letter of Credit Bank Claims
4 as it is the Proponents' understanding that such holders have retained separate counsel to advise
5 them with respect thereto.

6 The following summary is based on the Internal Revenue Code of 1986, as amended
7 (the "Tax Code"), Treasury regulations promulgated thereunder, judicial decisions and published
8 administrative rules and pronouncements of the IRS as in effect on the date hereof. Changes in such
9 rules or new interpretations thereof may have retroactive effect and could significantly affect the
10 federal income tax consequences described below. In addition, this summary does not address
11 foreign, state or local tax consequences of the Plan, nor does it purport to address the federal income
12 tax consequences of the Plan to special classes of taxpayers (such as foreign taxpayers, broker-
13 dealers, banks, mutual funds, insurance companies, financial institutions, small business investment
14 companies, regulated investment companies, tax-exempt organizations and investors in pass-through
15 entities).

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

23 **B. CONSEQUENCES TO THE DEBTOR -- TREATMENT OF ESCROW(S).**

24 Pursuant to the Plan, one or more escrows will be established to hold any amounts that
25 would be distributable to holders of certain Disputed Claims. The Proponents believe that any
26 escrow established with respect to Disputed Claims generally should not be treated as a separate
27 taxable entity for federal income tax purposes, and that any amounts held by any such escrow should
28 be treated as assets of the Reorganized Debtor. However, depending on the nature of the Claims

1 disputed, it is possible that one or more of the escrows could, either at inception or at some later
2 time, constitute a qualified settlement fund within the meaning of Treasury Regulation section
3 1.468B-1. If so treated, the escrow would be subject to a separate entity level tax on its taxable
4 income at the maximum rate applicable to trusts and estates (currently 35%).

5 C. **CONSEQUENCES TO HOLDERS OF ALLOWED GENERAL UNSECURED**
6 **CLAIMS, ALLOWED ISO, PX AND GENERATOR CLAIMS AND ALLOWED**
7 **ESP CLAIMS.**

8 Pursuant to the Plan, holders of Allowed General Unsecured Claims (Class 5), Allowed
9 ISO, PX and Generator Claims (Class 6) and Allowed ESP Claims (Class 7) will receive Cash in
10 satisfaction and discharge of their Allowed Claims. Such holders must include amounts received in
11 excess of their adjusted tax basis in their Allowed Claims (if any) in gross income in the taxable year
12 in which such amounts are actually or constructively received by them (and may recognize
13 deductible losses to the extent amounts received that are not taxable as interest income (as described
14 below) are less than their adjusted tax basis in their Allowed Claims). Where appropriate, as
15 described below, taxes will be withheld from such payments as required by law.

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

22 In general, to the extent that any amount received by a holder of an Allowed Claim is
23 received in satisfaction of accrued interest or accrued original issue discount (“OID”) during its
24 holding period (likely including Post-Petition Interest), such amount will be taxable to the holder as
25 interest income (if not previously included in the holder’s gross income). If the Debtor is
26 determined to be insolvent by a Final Order of the Bankruptcy Court, any Post-Petition Interest may
27 be recharacterized and treated as a partial payment of the amounts payable before the Petition Date
28 under the applicable Allowed Claim. In general, a holder recognizes a deductible loss (which may
be ordinary) to the extent any accrued interest claimed was previously included in its gross income

1 and is not paid in full. However, the IRS has privately ruled that a holder of a security, in an
2 otherwise tax-free exchange, could not claim a current deduction with respect to any unpaid OID.
3 Accordingly, it is unclear whether, by analogy, a holder of an Allowed Claim with previously
4 included OID that is not paid in full would be required to recognize a capital loss rather than an
5 ordinary loss.

6 In addition, the federal income tax consequences of the Plan to a holder may depend on
7 whether the interest rates set in the Settlement and Support Agreement, as relates to such holder's
8 Claim, represent solely a clarification of law or a change in the true rate. The preceding discussion
9 assumes that no significant change in a holder's Claim was effected by the Settlement and Support
10 Agreement. Each holder of a Claim subject to the Settlement and Support Agreement is urged to
11 consult its tax advisor regarding the federal income tax consequences of the Settlement Order in
12 relation to the Plan.

13 **D. CONSEQUENCES TO HOLDERS OF SECURED CLAIMS RELATING TO**
14 **FIRST AND REFUNDING MORTGAGE BONDS.**

15 Pursuant to the Plan, holders of Claims Relating to First and Refunding Mortgage Bonds
16 (Class 3a) shall be paid in cash in an amount equal to the amount of their Allowed Claims, plus
17 certain prepayment penalties or premiums. Holders of such Allowed Claims must include amounts
18 received in excess of their adjusted tax basis in their First and Refunding Mortgage Bonds (if any) in
19 gross income in the taxable year in which such amounts are actually or constructively received by
20 them (and may recognize deductible losses to the extent amounts received that are not taxable as
21 interest income (as described below) are less than their adjusted tax basis in their First and
22 Refunding Mortgage Bonds). Where appropriate, as described below, taxes will be withheld from
23 such payments as required by law.

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

1 the holder had previously claimed a bad debt deduction.

2 In general, to the extent that any amount received by a holder of a First and Refunding
3 Mortgage Bond is received in satisfaction of accrued interest or accrued OID during its holding
4 period (likely 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). If the Debtor is determined to be
6 insolvent by a Final Order of the Bankruptcy Court, any Post-Petition Interest may be
7 recharacterized and treated as a partial payment of the amounts payable before the Petition Date
8 under the applicable Allowed Claim. In general, a holder recognizes a deductible loss (which may
9 be ordinary) to the extent any accrued interest claimed was previously included in its gross income
10 and is not paid in full. However, the IRS has privately ruled that a holder of a security, in an
11 otherwise tax-free exchange, could not claim a current deduction with respect to any unpaid OID.
12 Accordingly, it is unclear whether, by analogy, a holder of a First and Refunding Mortgage Bond
13 with previously included OID that is not paid in full would be required to recognize a capital loss
14 rather than an ordinary loss.

15 **E. CONSEQUENCES TO HOLDERS OF CERTAIN PC BOND CLAIMS.**

16 Pursuant to the Plan, the Mortgage Backed PC Bonds (Class 4a) shall either be renewed
17 and remain outstanding (if the New Money Notes are not secured on the Effective Date) or be
18 redeemed in accordance with their terms, with holders of Mortgage Backed PC Bonds being paid in
19 cash in an amount equal to the amount of their Allowed Claims (if the New Money Notes are
20 secured on the Effective Date). As set forth in the Plan, to the extent that the Mortgage Backed PC
21 Bonds are renewed and remain outstanding, there will be some modification to the terms of the
22 indebtedness evidenced by the Mortgage Backed PC Bonds. However, the Proponents believe that
23 such modifications, either viewed individually or taken as a whole, should not constitute a
24 significant modification, as determined under applicable Treasury Regulations, with respect to any
25 such bonds, and thus no holder of such bonds should be deemed to have exchanged their existing
26 bonds for "new" bonds for federal income tax purposes.

27 Accordingly, the Plan provides that, with respect to each series of Mortgage Backed PC
28 Bonds, the Issuer shall receive an opinion of nationally recognized bond counsel to the effect that

1 the transactions set forth in the Plan with respect to such series of PC Bonds and the execution and
2 delivery of any releases, amendments or other agreements in connection therewith, will not, in and
3 of themselves, cause interest thereon to become includable in the gross income of the holders thereof
4 for federal income tax purposes.

5 **F. INFORMATION REPORTING AND WITHHOLDING.**

6 All distributions to holders of Allowed Claims and Equity Interests under the Plan are
7 subject to any applicable withholding (including income tax and employment tax withholding).
8 Under federal income tax law, interest, dividends and other reportable payments may, under certain
9 circumstances, be subject to “backup withholding” at the then applicable rate (currently twenty-eight
10 percent (28%)). Backup withholding generally applies if the holder (a) fails to furnish its social
11 security number or other taxpayer identification number (“TIN”), (b) furnishes an incorrect TIN,
12 (c) fails properly to report interest or dividends, or (d) under certain circumstances, fails to provide a
13 certified statement, signed under penalty of perjury, that the TIN provided is its correct number and
14 that it is not subject to backup withholding. Backup withholding is not an additional tax but merely
15 an advance payment, which may be refunded to the extent it results in an overpayment of tax.
16 Certain Persons are exempt from backup withholding, including, in certain circumstances,
17 corporations and financial institutions.

18 **THE FOREGOING SUMMARY HAS BEEN PROVIDED FOR**
19 **INFORMATIONAL PURPOSES ONLY. ALL HOLDERS OF CLAIMS AND EQUITY**
20 **INTERESTS ARE URGED TO CONSULT THEIR TAX ADVISORS CONCERNING THE**
21 **FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE UNDER**
22 **THE PLAN.**

23 **XVI. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN**

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

27 **A. LIQUIDATION UNDER CHAPTER 7.**

28 If no chapter 11 plan can be confirmed, the Chapter 11 Case may be converted to a case

1 under chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to
2 liquidate the assets of the Debtor. A discussion of the effect that a chapter 7 liquidation would have
3 on the recoveries of holders of Claims and Equity Interests is set forth in Section X.C.4 of this
4 Disclosure Statement. The Debtor believes that liquidation under chapter 7 would result in, among
5 other things, (i) smaller distributions being made to creditors than those provided for in the Plan
6 because of additional administrative expenses attendant to the appointment of a trustee and the
7 trustee's employment of attorneys and other professionals, (ii) additional expenses and claims, some
8 of which would be entitled to priority, which would be generated during the liquidation and from the
9 rejection of leases and other executory contracts in connection with a cessation of the Debtor's
10 operations and (iii) the failure to realize the greater going concern value of the Debtor's assets.

11 **B. ALTERNATIVE PLAN OF REORGANIZATION.**

12 If the Plan is not confirmed, the Bankruptcy Court may resume proceedings with respect
13 to the Original PG&E Plan and the Commission Plan. At this time, pursuant to the Bankruptcy
14 Court's order, all proceedings with respect to confirmation of the Original PG&E Plan and the
15 Commission Plan have been stayed, pending further order of the Bankruptcy Court.

16 Further, if the Plan is not confirmed, any other party in interest could attempt to
17 formulate a different plan. Such a plan might involve either a reorganization and continuation of the
18 Debtor's business or an orderly liquidation of its assets. The Proponents have concluded that the
19 Plan represents the best alternative to protect the interests of creditors and other parties in interest.

20 **C. LIQUIDATION UNDER CHAPTER 11.**

21 The Proponents believe that the Plan enables the Debtor to successfully and
22 expeditiously emerge from chapter 11 and preserve its business, and allows creditors to realize the
23 highest recoveries under the circumstances. In a liquidation under chapter 11 of the Bankruptcy
24 Code, the assets of the Debtor would be sold in an orderly fashion, which could occur over a more
25 extended period of time than in a liquidation under chapter 7 and a trustee need not be appointed.
26 Accordingly, creditors may receive greater recoveries than in a chapter 7 liquidation. Although a
27 chapter 11 liquidation may be preferable to a chapter 7 liquidation, the Proponents believe that a
28 liquidation under chapter 11 is a much less attractive alternative to creditors because a greater return

1 to creditors is provided for in the Plan.

2 **XVII. CONCLUSION AND RECOMMENDATION.**

3 The Proponents believe that confirmation and implementation of the Plan is preferable
4 to any available alternative because it will provide the greatest recoveries to holders of Claims and
5 Equity Interests, and other alternatives would involve significant delay, uncertainty and substantial
6 additional administrative costs. The Proponents urge holders of impaired Claims and Equity
7 Interests entitled to vote on the Plan to accept the Proponents' Plan and to evidence such acceptance

8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

1 by returning their Ballots so that they will be received no later than 5:00 p.m., Eastern Time, on
2 September 29, 2003.

3 DATED: July 31, 2003.

4 PACIFIC GAS AND ELECTRIC COMPANY

5
6 By: /s/ Roger J. Peters
7 Senior Vice President and General Counsel

8 PG&E CORPORATION

9
10 By: /s/ Bruce R. Worthington
11 Senior Vice President and General Counsel

12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

1 APPROVED AS TO CONTENT AND FORM:

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

HOWARD, RICE, NEMEROVSKI, CANADY,
FALK & RABKIN, A PROFESSIONAL CORPORATION

BY: /s/ James L. Lopes
ATTORNEYS FOR DEBTOR AND DEBTOR-IN-
POSSESSION

COOLEY GODWARD LLP

By: /s/ Stephen C. Neal
ATTORNEYS FOR DEBTOR AND DEBTOR-IN-
POSSESSION

DEWEY BALLANTINE LLP

By: /s/ Alan Gover
ATTORNEYS FOR PG&E CORPORATION

WEIL, GOTSHAL & MANGES LLP

BY: /s/ Michael P. Kessler
ATTORNEYS FOR PG&E CORPORATION

ORRICK, HERRINGTON & SUTCLIFFE LLP

By: /s/ Joseph M. Malkin
ATTORNEYS FOR PG&E CORPORATION

PROFESSOR LAURENCE TRIBE

By: /s/ Laurence Tribe
CO-COUNSEL TO PG&E CORPORATION
FOR CONSTITUTIONAL LAW MATTERS

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

INDEX OF DEFINED TERMS

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

<u>Term</u>	<u>Section</u>
1991 Settlement Agreement	Section IV.D.16
92A Bonds	Section XIV.A.1
92B Bonds	Section XIV.A.1
93A Bonds	Section XIV.A.1
93B Bonds	Section XIV.A.1
96B Bonds	Section XIV.A.1
96C Bonds	Section XIV.A.1
96D Bonds	Section XIV.A.1
96E Bonds.....	Section XIV.A.1
96F Bonds.....	Section XIV.A.1
96G Bonds	Section XIV.A.1
97A Bonds	Section XIV.A.1
97B Bonds	Section XIV.A.1
97C Bonds	Section XIV.A.1
97D Bonds	Section XIV.A.1
AB 1X.....	Section IV.C.
AB1890.....	Section IV.A.
Administrative Expense Claims.....	Plan
Affiliates	Plan
Aguayo Litigation.....	Section VIII.D
Allowed Claims	Plan
ARA.....	Plan
Ballot.....	Plan
Bankruptcy Code	Section I
Bankruptcy Court.....	Section I
Bankruptcy Rules.....	Plan
Behr Complaint.....	Section VIII.B
BFM.....	Section VIII.E
Bond Loan	Section XIV.A.1
Bond Trustee.....	Section XIV.A.1
Business Day.....	Plan
Cash	Plan
Cause of Action.....	Plan
CCSF	Section VIII.A
CCSF Complaint.....	Section VIII.B
CEC	Section III.C
Chapter 11 Case.....	Plan
Chromium Litigation.....	Plan
Chromium Litigation Claims.....	Plan
Claim.....	Plan
Class 4e Stipulation.....	Section V.B.14
Commercial Paper Claims	Plan
Committee.....	Section I
Common Stock	Plan
Common Stock Equity Interests	Plan
Confirmation Date	Plan
Confirmation Hearing.....	Section I
Confirmation Order	Plan

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

1	Commission.....	Section I
	Commission-DWR Rate Agreement	Plan
2	Commission Plan.....	Section I
	Commission Settlement Agreement.....	Plan
3	Debtor	Section I
	Debtor’s Bankruptcy Schedules	Plan
4	Debtor-in-Possession.....	Plan
	Disbursing Agent	Plan
5	Disclosure Statement Order.....	Section I
	Disclosure Statement	Section I
6	Disputed Claims.....	Plan
	Distribution Record Date.....	Plan
7	DWR.....	Section IV.C
	DWR Contracts.....	Plan
8	Effective Date	Plan
	El Paso	Section VIII.F
9	Environmental, Fire Suppression, Pending Litigation and Tort Claims.....	Plan
	Environmental Claims	Plan
10	Environmental Order	Section VI.M.19
	Equity Interest.....	Plan
11	ESP	Plan
	ESP Claims	Plan
12	Federal Judgment Rate	Plan
	FERC	Plan
13	Final Approval.....	Plan
	Final Order.....	Plan
14	Fire Suppression Claims	Plan
	First and Refunding Mortgage Bonds.....	Plan
15	Floating Rate Notes	Plan
	Floating Rate Note Claims.....	Plan
16	Forbearance, Extension and Letter of Credit Fees.....	Plan
	General Unsecured Claims	Plan
17	Governmental Entity.....	Plan
	Impaired.....	Plan
18	Indenture	Section II.A
	Initial Calculation Date.....	Plan
19	Interest Portion.....	Section XIV.A.3
	IRS	Plan
20	ISO.....	Section III.B.1
	ISO, PX and Generator Claims.....	Plan
21	Issuer.....	Plan
	LC Bank Agreement	Section IX.A.13
22	Letter of Credit Backed PC Bonds	Section II.A
	Letter of Credit Backed PC Bond Claims.....	Section IX.A.12
23	Letter of Credit Issuing Bank	Plan
	Letter of Credit Bank Claims.....	Plan
24	Letter of Credit	Plan
	Liens	Plan
25	Loan Agreement	Plan
	Master Ballot.....	Plan
26	Matured and Unpresented First and Refunding Mortgage Bonds	Plan
	MBIA.....	Plan
27	MBIA Claims.....	Plan
	MBIA Insured PC Bonds.....	Plan
28	MBIA Insured PC Bond Claims	Plan

1	MBIA Reimbursement Agreement.....	Plan
	Medium Term Notes.....	Plan
2	Medium Term Note Claims.....	Plan
	Moody's.....	Plan
3	Mortgage Backed PC Bonds.....	Section XIV.A.1
	Mortgage Backed PC Bond Claims.....	Section IX.A.9
4	Mortgage.....	Plan
	MOU.....	Section VIII.F
5	MW.....	Section III.B.1
	NCPA.....	Section V.B.16
6	New Money Notes.....	Plan
	New Mortgage Bonds.....	Plan
7	Nominee.....	Section I.D.1
	NRC.....	Section III.C
8	OEHHA.....	Section VIII.D
	OID.....	Section XV.C
9	Original Letter of Credit Fee.....	Section IX.A.13
	Other Priority Claims.....	Section IX.A.5
10	Other Secured Claims.....	Section IX.A.6
	Palo Alto.....	Section V.B.16
11	The Parent.....	Section I
	PC Bond Documents.....	Section XIV.A.1
12	PC Bond Insurance Policy.....	Section XIV.A.4
	PC Bonds.....	Section XIV.A.1
13	Pending Litigation Claims.....	Plan
	Person.....	Plan
14	Petition Date.....	Section I.B
	PG&E Proponents.....	Section VI
15	Plan.....	Section I
	Plan Supplement.....	Plan
16	Post-Petition Interest.....	Section II.A
	Preferred Stock.....	Plan
17	Preferred Stock Equity Interests.....	Plan
	Principal Portion.....	Section XIV.A.3
18	Prior Bonds.....	Section XIV.A.1
	Prior Bond Claims.....	Plan
19	Prior Letter of Credit Issuing Bank.....	Section XIV.A.1
	Prior Letter of Credit.....	Section XIV.A.5
20	Prior Reimbursement Agreement.....	Section XIV.A.5
	Priority Tax Claims.....	Plan
21	Professional Compensation and Reimbursement Claims.....	Plan
	Projection Period.....	Section X.C.3
22	Proponents.....	Section I
	Proposed Settlement Agreement.....	Section I
23	Punitive Damages.....	Plan
	QFs.....	Section III.B.1
24	QUIDS Claims.....	Plan
	Rate Recovery Litigation.....	Plan
25	Reimbursement Agreement.....	Section II.A
	Reimbursement Obligation.....	Section XIV.A.5
26	Reorganized Debtor.....	Plan
	Revolving Line of Credit.....	Plan
27	Right.....	Section VI.E.2
	S&P.....	Section VII.
28	SEC.....	Section I

1	Secured Claim.....	Plan
	Secured Claims Relating to First and Refunding Mortgage Bonds.....	Plan
2	Secured Claims Relating to PC-Related Mortgage Bonds.....	Plan
	Securities Act.....	Plan
3	Senior Indebtedness.....	Plan
	Senior Notes.....	Plan
4	Senior Note Claims.....	Plan
	Settlement and Support Agreement.....	Plan
5	Settlement Order.....	Section V.B.18
	Southern San Joaquin Valley Power Authority Agreement.....	Plan
6	Southern San Joaquin Valley Power Authority Bond Claims.....	Plan
	Stated Amount.....	Plan
7	Support Agreement.....	Plan
	Tax Code.....	Section XV.A
8	TCBA.....	Plan
	TIN.....	Section XV.F
9	Tort Claims.....	Plan
	Treasury PC Bonds.....	Section XIV.A.1
10	Treasury PC Bond Claims.....	Section IX.A.15
	Turn Accounting Order.....	Section V.B.10
11	TURN.....	Section XIII.5
	Voting Agent.....	Section I.D.1
12	Voting Deadline.....	Section I.D.1
	Voting Record Date.....	Plan
13	Workers' Compensation Claims.....	Plan
14	Workers' Compensation Indemnity Agreements.....	Plan

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN

A Professional Corporation

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

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

EXHIBIT A TO THE DISCLOSURE STATEMENT

Plan of Reorganization

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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

EXHIBIT B TO THE DISCLOSURE STATEMENT

Disclosure Statement Order

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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

EXHIBIT C TO THE DISCLOSURE STATEMENT

Projected Financial Information

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

EXHIBIT C TO THE DISCLOSURE STATEMENT

Assumptions – Nature and Limitations of Projections

The financial projections included in the Disclosure Statement depend upon the successful implementation of the Plan of Reorganization for the Reorganized Debtor, and the validity of the other assumptions contained therein. These projections reflect numerous assumptions, including confirmation and consummation of the Plan in accordance with its terms, continued access by the Reorganized Debtor to capital markets, the continued availability of the working capital facilities contemplated by the Disclosure Statement, the anticipated future performance of the Reorganized Debtor, certain assumptions with respect to its competitors, general business and economic conditions and other matters, many of which are beyond the control of the Reorganized Debtor. In addition, the risk factors outlined in the Disclosure Statement and unanticipated events and circumstances occurring subsequent to the preparation of the projections may affect the actual financial results of the Reorganized Debtor. Although the Proponents believe that the projections are reasonably attainable, variations between the actual financial results and those projected may occur and may be material.

Significant Assumptions Regarding Plan Consummation

The Debtor is assuming that the Plan shall be confirmed by the Bankruptcy Court for the purposes of these projections. The assumption of Plan confirmation incorporates the following significant assumptions:

1. the holders of claims in Classes 3a, 3b, 4a, 4c, 4e, 5, 6, and 7 shall have voted to accept the Plan by the requisite statutory majority or majorities as provided in section 1126(c) of the Bankruptcy Code or, if any such class does not accept the Plan, the Bankruptcy Court shall confirm the Plan under section 1129(b) of the Bankruptcy Code;
2. no material adverse effect on the business, assets, operations, property, or condition (financial or otherwise) of the Debtor or any of its subsidiaries (other than inactive subsidiaries) shall have occurred and be continuing;
3. no material unanticipated claims shall have been filed or asserted in the Chapter 11 Case;
4. all necessary regulatory and governmental approvals shall have been received within the contemplated timeline;
5. all financing transactions contemplated by the Plan shall have been consummated on the terms contemplated by the Plan and the Disclosure Statement; and
6. the Bankruptcy Court shall have issued the Confirmation Order.

Significant Assumptions Regarding the Pre-Consummation Projections

Cash Balance At December 31, 2003

The Debtor expects to have cash available to reimburse creditors at year-end 2003 of approximately \$2.5 billion. This amount is estimated based on the current cash balances, and taking into account various cash impacts through 2003. These impacts include reductions for restricted funds, outstanding checks and all operating receipts and disbursements. Capital expenditures included in the forecast total \$1.7 billion in 2003.

Earnings For 2003

Earnings during 2003 reflect both earnings from ongoing utility operations, as well as non-recurring items (including those described as “items affecting comparability”) in the Reorganized Debtor’s public filings with the Securities and Exchange Commission). Starting common equity balances in 2004 incorporate these earnings.

Significant Assumptions Regarding Effective Date Funding of Claims

As described in detail in the Plan and Disclosure Statement, claims are funded with a combination of cash on hand, reinstatement of certain financial claims such as preferred stock interests and pollution control bonds in classes 4a, 4b, and 4d, and the cash proceeds of new money notes. The Reorganized Debtor may also draw on a portion of its proposed bank facilities to fund claims, depending upon its seasonal working capital requirements at the actual effective date.

Claims in Classes 6 and 7 have not been reduced for the impact of any refunds ordered by the Federal Energy Regulatory Commission (FERC) or settlements of disputed claims. Because the financial projections assume full payment of Class 6 and 7 claims, the levels of debt at the effective date, the size of the Settlement Regulatory Asset, and customer revenues associated with the Settlement Regulatory Asset have not been adjusted for any potential reductions in these claims.

Structure of the Reorganized Debtor

1. The Reorganized Debtor will remain an integrated electric and gas utility company serving predominantly retail customers in Northern and Central California. The Reorganized Debtor will retain its existing gas and electric distribution, transmission and customer service assets.
2. The Reorganized Debtor will provide distribution customer services and revenue cycle services, and will provide and administer public purpose programs for retail electric and gas customers.
3. The Reorganized Debtor will retain the obligation to procure gas on behalf of its core gas customers and the obligation to procure power on behalf of its retail electric customers.
4. The Reorganized Debtor will assume and retain the bilateral energy purchase agreements with (a) third party gas suppliers, and (b) QFs and other third party power suppliers, including the Irrigation Districts.
5. The Reorganized Debtor will retain its electric generation assets, including the 2,174 MW capacity Diablo Canyon nuclear plant, its conventional and pumped storage hydro-electric generating facilities with an aggregate capacity of 3,896 MW, and two small fossil generating facilities.
6. The Reorganized Debtor will remain subject to rate regulation of the Commission for its electric distribution, generation and procurement operations, and for its gas distribution, procurement, transmission and storage operations, subject to the terms of the Settlement as incorporated into the Plan and Confirmation Order.
7. The Reorganized Debtor's high voltage electric transmission assets will provide services for its own retail customers as well as wholesale market participants, both under the jurisdiction of the FERC.

Income Statement

Total Operating Revenues

Revenues include customer payments for electric and gas distribution services, electric transmission and gas transmission and storage services, electric and gas energy procurement purchases (excluding California Department of Water Resources sources of electricity), electric power generated by the Reorganized Debtor's retained electric generating facilities, public purpose programs, recovery of the proposed Settlement Regulatory Asset with associated taxes and return, and Rate Reduction Bonds.

1. Electric and Gas Revenues include base revenues from the 2003 General Rate Case and subsequent annual attrition proceedings intended to enable the Reorganized Debtor to recover increased costs due to inflation, customer growth and ratebase growth. The authorized rate of return on common equity (ROE) remains at 11.22%. The authorized common equity ratio equals 48.6% in 2004, and increases to 52.0% by 2006. Electric annual load growth for bundled sales approximates 1.4%/year, and gas annual load growth for core customers

approximates 1.0%/year. Electric Direct Access retail load approximates 9,000 GWh annually (11.4% of total deliveries in 2004) and is held constant throughout the forecast period.

2. Electric Revenues also include base revenues to enable the Reorganized Debtor to recover non-fuel operating costs, depreciation, taxes and rate of return on its retained electric generation assets, as well as revenues to recover amortization, return, and associated taxes on the Settlement Regulatory Asset.
3. Electric and gas procurement revenues match electric and gas procurement expenses. Excluded are revenues collected for electric energy procured by DWR on behalf of the Reorganized Debtor's customers. Cash revenues (receipts) lag expenses (disbursements) by the average working capital lag of 16 days.
4. Electric and Gas Public Purpose Program Revenue, excluding CARE, total \$310 million in 2004 and escalate thereafter. Identical M&O expenses offset these revenues so there is no impact on earnings or cash from operations.

Operating Expenses

1. Total Cost of Energy includes all electric and gas commodity procured on behalf of retail electric and gas customers by the Reorganized Debtor. Electric commodity costs include QF contracts, natural gas fuel for the Hunters Point and Humboldt power plants, nuclear fuel for the Diablo Canyon power plant, Irrigation District contracts, and other commodity procurement and grid management expenses. Excluded are remittances to DWR for power it procures on behalf of the Reorganized Debtor's customers and for bond debt service.
2. M&O and A&G Costs include direct M&O Expenses for electric and gas distribution, transmission, and the Reorganized Debtor's retained generating assets, A&G costs, public purpose programs and franchise and uncollectibles expenses.
3. Depreciation is calculated for distribution and electric generation assets using depreciation rates proposed in the Reorganized Debtor's current 2003 Test Year CPUC General Rate Case (GRC). Electric and gas transmission depreciation reflects depreciation rates used to develop tariffs currently authorized by the FERC and CPUC, respectively. Depreciation expense also includes amortization of the Settlement regulatory asset including its provision for taxes on recovery of principal. Other items included in depreciation include provisions for fossil and nuclear power plant decommissioning.
4. Property Tax is estimated at about 1% of net plant. For purposes of these projections, the Regulatory Asset established by the Proposed Settlement Agreement is assumed to be an intangible asset and thus not subject to incremental property tax under California law. The valuation methodologies

utilized by the State Board of Equalization (“BOE”) for allocating property taxes among individual California counties will be determined by the BOE in accordance with its decisions and precedents. Actual Property Tax paid by the Reorganized Debtor after the Effective Date is dependent on BOE decisions and may vary from these projections. Franchise Fees and Uncollectable expenses are estimated at about 1% of revenue.

Interest Expense

Interest Expense (excluding Rate Reduction Bonds) consists mainly of interest on long-term debt. Interest expense is based on interest rates of approximately 6.5% for new debt and 4.5% for reinstated Pollution Control bonds. Borrowing costs are based on the all-in, effective costs to the Reorganized Debtor. Corresponding debt balances are net of issuance expenses. Accordingly, the par value of debt issued will be approximately 1.0 percent higher than the net balances shown. Rate Reduction Bond interest and the amortization of the net gain or loss on reacquired debt are shown separately.

Other Income

Other Income is comprised of “below-the-line” income and expenses, including AFUDC, operating costs not recoverable in retail rates, and non-recurring items.

Income Taxes

Income Taxes are calculated using a 35% federal tax rate and an 8.84% state tax rate, with a combined tax rate of 40.746%. The book income tax provision reflects existing regulatory practices for recognizing the timing of income tax expenses.

Dividends

Preferred Dividend arrearages are paid on the Effective Date. Preferred dividends are based on an embedded cost of preferred stock of approximately 6.5%.

Balance Sheet

Assets

Generally, balances of assets and liabilities are either held constant at their starting level, or are taken as a percentage of a revenue or expense. Plant in service,

construction work in progress, common stock and long-term debt are dynamic balances, changing as a function of cash from operations and capital expenditures. Net plant includes the value of the Reorganized Debtor's retained generation facilities under cost of service regulation per Advice Letter 2233-E implementing D.02-04-016, as per the Settlement, Plan and Confirmation Order and as expected to be further modified through normal depreciation, additions, and retirements. Cash balances are held constant at an initial level for restricted funds and check float.

Capitalization

Short-term debt is used to fund seasonal working capital requirements and natural gas storage inventory. Any subsequent surplus cash is used for debt retirement or distribution to common shareholders in amounts necessary to achieve and then maintain the target capital structure. For the Reorganized Debtor, the targeted common equity to total long-term capitalization ratio is 52% (excluding rate reduction bonds and short-term debt used to finance seasonal working capital requirements or natural gas storage inventory).

Cash Flow Statement

1. Cash from operations is estimated by adding back depreciation and deferred taxes to net income, plus changes in working capital. Seasonal variations in receipts and reimbursements will cause these average requirements to fluctuate within a range of approximately +/- \$300 million.
2. Subsequent to the Effective Date, the Reorganized Debtor manages its capital structure such that it achieves an overall ratio of common equity to total capitalization of 52% within two years, and then maintains that common equity ratio over time. Reorganized Debtor commences cash distributions to common shareholders (shown as common stock repurchases) when it reaches its target capital structure in the second half of 2005. Subsequently, Reorganized Debtor issues or repurchases debt and common equity annually in order to maintain this capital structure.

REORGANIZED DEBTOR

	<u>12/31/2003</u>	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>
	(\$Millions)					
INCOME STATEMENT						
Total Operating Revenues*		10554.6	10780.1	10813.5	11056.2	11178.3
<i>Operating Expenses</i>						
Total Cost of Energy*		3296.4	3322.0	3176.6	3228.0	3458.0
M&O and A&G Costs		3119.1	3154.9	3201.0	3279.7	3354.2
Depreciation & Decommissioning		1429.1	1512.1	1578.8	1683.2	1788.5
Property & Other Taxes		166.8	172.7	177.0	179.7	181.4
RRB Asset Amortization		290.2	289.7	289.7	289.7	(0.4)
Total Operating Expenses		<u>8301.5</u>	<u>8451.4</u>	<u>8423.0</u>	<u>8660.3</u>	<u>8781.7</u>
Operating Income		2253.1	2328.7	2390.5	2395.8	2396.6
Total Interest Income		13.0	13.0	13.0	13.0	13.0
Interest Expense (Excl RRBs)		574.4	554.6	552.3	558.7	561.9
Amortization of Loss on Reacquired Debt		24.6	24.6	24.6	24.6	24.6
RRB Interest		68.9	50.3	31.5	12.1	0.0
Total Interest Expense		<u>667.9</u>	<u>629.5</u>	<u>608.4</u>	<u>595.4</u>	<u>586.5</u>
Other Income		(6.7)	(7.9)	(13.5)	(14.6)	(14.7)
Pretax Income		1591.5	1704.3	1781.6	1798.9	1808.4
Total Booked Income Taxes		678.4	722.2	757.1	765.3	772.0
Preferred Dividend Req		24.7	24.2	23.2	23.5	24.5
Total Earnings Avail for Common		888.3	957.9	1001.2	1010.2	1011.9

* Excludes Receipts and Disbursements for CDWR Procurement.

REORGANIZED DEBTOR

	<u>12/31/2003</u>	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>
	(\$Millions)					
BALANCE SHEET						
<i>Assets</i>						
Plant in Service.....	28965.8	30405.9	32014.5	33289.9	34653.0	36043.7
Accumulated Depr.....	<u>(13142.6)</u>	<u>(14064.7)</u>	<u>(14992.4)</u>	<u>(15920.4)</u>	<u>(16904.0)</u>	<u>(17938.0)</u>
Net Plant.....	15823.2	16341.3	17022.1	17369.4	17749.0	18105.7
Construction Work In Progress.....	318.3	359.0	292.1	291.4	291.0	306.9
Nuclear Decommissioning Trust Fund	1376.0	1406.6	1437.3	1467.9	1498.6	1529.2
Other Noncurrent Assets.....	<u>65.1</u>	<u>65.1</u>	<u>65.1</u>	<u>65.1</u>	<u>65.1</u>	<u>65.1</u>
Total Long-term Assets.....	17582.6	18172.1	18816.6	19193.9	19603.7	20007.0
<i>Current Assets:</i>						
Short-term Investments (Net)	433.0	433.0	433.0	433.0	433.0	433.0
Accounts Receivable.....	1671.0	1668.3	1691.9	1686.3	1721.0	1741.5
Balancing Accts Receivable	85.4	85.4	85.5	85.6	85.6	85.7
Inventory - Fuels	358.8	391.8	381.1	352.9	343.6	355.2
Inventory - M&S	127.7	129.5	131.2	132.9	134.6	136.3
Prepayments & Adv to Gas Prod.....	<u>80.7</u>	<u>80.7</u>	<u>80.7</u>	<u>80.7</u>	<u>80.7</u>	<u>80.7</u>
Total Current Assets.....	2756.6	2788.7	2803.3	2771.3	2798.5	2832.3
<i>Deferred Charges:</i>						
Expense Deferral (Regulatory Asset)	1241.8	951.6	662.0	372.4	82.7	83.2
Regulatory Assets.....	2210.0	2068.1	1907.4	1725.4	1519.3	1286.0
URG Regulatory Assets.....	793.0	747.5	702.0	656.5	611.0	565.5
Regulatory Assets Def Tax.....	2065.0	1936.1	1794.4	1637.9	1464.9	1273.2
Other Deferred Charges.....	<u>1750.9</u>	<u>1719.5</u>	<u>1688.1</u>	<u>1656.7</u>	<u>1625.3</u>	<u>1593.9</u>
Total Deferred Charges.....	8060.7	7422.9	6753.8	6048.8	5303.2	4801.7
TOTAL ASSETS.....	28399.9	28383.6	28373.8	28014.0	27705.4	27641.1

REORGANIZED DEBTOR

	<u>12/31/2003</u>	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>
	(\$Millions)					
<i>Capitalization:</i>						
Common Stock Equity.....	7971.4	8859.8	9512.0	9591.7	9683.0	9689.6
Preferred Stock (incl QUIDS).....	416.0	412.9	406.0	399.1	424.7	421.6
RRBs Outstanding.....	1160.3	870.2	580.1	290.0	0.0	0.0
Other Long-term Debt.....	8841.2	8799.0	8374.0	8454.4	8513.3	8522.4
Total Capitalization.....	18389.0	18941.8	18872.1	18735.1	18621.0	18633.6
<i>Current Liabilities:</i>						
Short-Term Borrowings	500.0	(0.0)	215.2	198.1	198.8	219.3
Accounts Payable - Creditors	859.2	841.5	843.1	825.9	840.9	874.4
Accounts Payable - Affiliates	0.0	0.0	0.0	0.0	0.0	0.0
Balancing Accounts Payable	141.2	140.2	139.3	138.4	137.6	136.7
Accrued Taxes Payable	325.6	344.7	360.0	363.8	367.0	357.3
Interest Payable	17.9	35.1	49.1	48.2	48.8	49.1
Dividends Payable	0.0	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	577.7	577.7	577.7	577.7	577.7	577.7
Total Current Liabilities	2421.6	1939.1	2184.4	2152.1	2170.8	2214.6
<i>Deferred Credits and Other NC Liabilities:</i>						
Deferred Income Taxes.....	3240.5	3137.3	2924.6	2708.2	2467.3	2320.9
Deferred FTC.....	140.9	134.7	128.5	122.3	116.1	109.9
Noncurrent Balancing Acct Liab.....	0.0	0.0	0.0	0.0	0.0	0.0
Customer Advances for Construction.....	132.0	123.9	126.8	128.3	131.7	133.0
Other Deferred Credits.....	1787.8	1787.8	1787.8	1787.8	1787.8	1787.8
Other Noncurrent Liab.....	2288.1	2318.9	2349.6	2380.2	2410.7	2441.4
Total Deferred Credits & NC Liab.....	7589.4	7502.7	7317.3	7126.8	6913.6	6792.9
TOTAL CAPITAL & LIABILITIES.....	28399.9	28383.6	28373.8	28014.0	27705.4	27641.1

REORGANIZED DEBTOR

	<u>12/31/2003</u>	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>
	(\$Millions)					
CASH FLOW STATEMENT						
<i>Cash Flows From Operations:</i>						
Net Income.....		913.1	982.1	1024.4	1033.7	1036.4
Depreciation.....		1423.1	1506.1	1572.7	1677.2	1782.4
Change in Deferred Taxes.....		(109.4)	(218.9)	(222.6)	(247.2)	(152.6)
Change in Accts Receivable.....		2.8	(23.7)	5.7	(34.8)	(20.5)
Change in Inventories.....		(34.8)	9.1	26.4	7.6	(13.3)
Change in Accts Payable.....		(17.7)	1.6	(17.2)	15.0	33.5
Change in Accrued Taxes Payable.....		19.1	15.3	3.8	3.2	(9.7)
Change in Bal Accts & Reg Asset Amort.....		289.2	288.7	288.7	288.7	(1.4)
Change in Other Working Capital.....		13.0	14.0	(0.9)	0.5	0.4
Other Net Cash from Operations.....		83.1	99.4	97.0	93.0	95.1
Net Cash from Operations.....		<u>2581.4</u>	<u>2673.7</u>	<u>2778.2</u>	<u>2837.1</u>	<u>2750.3</u>
<i>Investing Activities:</i>						
Capital Expenditures.....		(1694.8)	(1806.4)	(1568.8)	(1659.3)	(1716.5)
Other Net Investing Activities.....		(30.6)	(30.6)	(30.6)	(30.6)	(30.6)
Net Cash Used In Investing.....		<u>(1725.4)</u>	<u>(1837.1)</u>	<u>(1599.4)</u>	<u>(1689.9)</u>	<u>(1747.2)</u>
<i>Financing Activities:</i>						
Common Stock Issued (Repurchased)		0.0	(305.6)	(921.6)	(918.8)	(1005.3)
Preferred Stock Issued.....		0.0	0.0	0.0	85.0	0.0
Preferred Stock redeemed.....		(3.1)	(6.9)	(6.9)	(59.4)	(3.1)
Long-term Debt issued.....		(42.1)	(425.0)	80.3	58.9	9.1
Long-term Debt matured/redeemed.....		0.0	0.0	0.0	0.0	0.0
Long-term Debt purch/sinking.....		0.0	0.0	0.0	0.0	0.0
RRB Principal Repayments.....		(290.1)	(290.1)	(290.1)	(290.1)	0.0
Change in Short-term Position.....		(500.0)	215.2	(17.1)	0.7	20.5
Dividends Disbursed.....		(20.6)	(24.3)	(23.4)	(23.5)	(24.4)
Other Net Financing Activities.....		0.0	0.0	0.0	0.0	0.0
Net Cash Used In Financing.....		<u>(856.0)</u>	<u>(836.7)</u>	<u>(1178.7)</u>	<u>(1147.1)</u>	<u>(1003.2)</u>
Net Change in Cash.....		(0.0)	0.0	0.0	0.0	0.0

REORGANIZED DEBTOR

	<u>12/31/2003</u>	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>
	(\$Millions)					
SUPPLEMENTAL INFORMATION						
<i>Revenues</i>						
Gas.....	2532.2	2611.6	2540.9	2650.1	2863.2	
Public Purpose.....	313.4	322.4	331.5	341.0	350.7	
Electric.....	7708.9	7846.2	7941.0	8065.1	7964.4	
Total from Inc Stmt.....	10554.6	10780.1	10813.5	11056.2	11178.3	
<i>Energy Costs</i>						
Gas Procurement.....	1052.3	1067.4	939.5	1006.1	1181.8	
Nuclear Fuel + Hydro Water + ID Payments.....	140.0	144.0	145.0	147.0	148.0	
QF Payments.....	1560.6	1546.3	1466.3	1342.1	1322.5	
Third Party Bilats.....	0.0	0.0	0.0	0.0	0.0	
Net Open.....	349.0	291.2	337.1	401.8	434.9	
Other Gen Costs ¹	194.5	273.1	288.7	331.0	370.8	
Total from Inc Stmt.....	3296.4	3322.0	3176.6	3228.0	3458.0	
<i>M&O and A&G Costs</i>						
Gas.....	702.5	724.2	741.5	764.5	784.1	
Public Purpose.....	310.2	319.0	328.1	337.5	347.1	
Electric.....	2106.3	2111.6	2131.4	2177.8	2223.0	
Total from Inc Stmt.....	3119.1	3154.9	3201.0	3279.7	3354.2	
<i>Depreciation & Decommissioning</i>						
Gas.....	282.7	296.4	311.0	327.2	339.6	
Electric ²	1171.0	1240.3	1292.3	1380.6	1473.5	
Total from Inc Stmt.....	1453.7	1536.7	1603.4	1707.8	1813.1	
<i>Property & Other Taxes</i>						
Gas.....	39.0	40.1	41.4	42.1	42.3	
Electric.....	127.8	132.7	135.5	137.6	139.1	
Total from Inc Stmt.....	166.8	172.7	177.0	179.7	181.4	
<i>Average Annual Rate Base</i>						
Gas.....	3650.1	3784.6	3903.5	3911.1	3940.7	
Electric.....	10358.0	10717.1	11044.2	11307.3	11546.0	
URG Regulatory Asset.....	770.3	724.8	679.3	633.8	588.3	
Settlement Regulatory Asset.....	2139.1	1987.8	1816.4	1622.4	1402.7	
<i>Authorized Capital Structure</i>						
% Debt.....	49.1%	47.3%	45.8%	45.7%	45.7%	
% Preferred.....	2.3%	2.2%	2.2%	2.3%	2.3%	
% Equity.....	48.6%	50.5%	52.0%	52.0%	52.0%	
	100.0%	100.0%	100.0%	100.0%	100.0%	
<i>Authorized Cost of Capital</i>						
Debt*.....	6.25%	6.28%	6.31%	6.34%	6.34%	
Preferred*.....	6.50%	6.50%	6.50%	6.50%	6.50%	
Equity.....	11.20%	11.20%	11.20%	11.20%	11.20%	
Return on Rate Base.....	8.66%	8.77%	8.86%	8.87%	8.87%	

¹ Includes ISO and Retained Fossil fuel costs net of RMR revenues and WAPA payments

² Includes URG and Settlement Regulatory Asset Amortization

* Excludes refunding costs recovered through authorized cost of debt

REORGANIZED DEBTOR

	<u>12/31/2003</u>	<u>12/31/2004</u>	<u>12/31/2005</u>	<u>12/31/2006</u>	<u>12/31/2007</u>	<u>12/31/2008</u>
	(\$Millions)					
SUPPLEMENTAL INFORMATION						
<i>Gas Procurement Volumes and Average Price</i>						
Gas Sales (mDTH).....	289,964	293,022	295,963	299,030	302,121	302,121
Average Price (\$/mmBtu).....	3.63	3.64	3.17	3.36	3.91	3.91
<i>Elec Procurement Volumes and Average Price</i> ¹						
<i>Volumes (GWh)</i>						
... Hydro/Helms/Diablo/ID.....	33,114	33,514	33,514	33,530	33,530	33,530
... QF.....	21,004	20,758	20,312	19,553	19,044	19,044
... Other Gen ²	2,518	3,141	3,517	3,839	4,584	4,584
... Net Open.....	2,878	1,464	1,923	1,867	2,532	2,532
Total Non-DWR Supply.....	59,514	58,877	59,266	58,789	59,690	59,690
... DWR.....	19,191	18,621	19,279	20,252	19,959	19,959
Total (excl D/A).....	78,704	77,498	78,546	79,042	79,649	79,649
<i>Average Price (\$/MWh)</i>						
... QF.....	74.30	74.49	72.19	68.64	69.44	69.44
... Other Gen ³	77.26	86.94	82.08	86.22	80.90	80.90
... Net Open.....	121.26	198.95	175.34	215.24	171.77	171.77
Total Non-DWR Supply.....	79.70	83.22	81.24	82.14	81.35	81.35
... DWR.....	110.26	111.22	103.47	99.58	102.73	102.73
Overall Average (excl D/A).....	92.57	95.07	90.76	89.90	90.61	90.61
<i>Sales/Deliveries (GWh)</i>						
Total Deliveries.....	78,686	79,686	80,688	81,690	82,684	82,684
... Bundled Sales.....	69,721	70,721	71,723	72,725	73,719	73,719
... Direct Access.....	8,965	8,965	8,965	8,965	8,965	8,965
<i>Average Rate (¢/kWh)</i>						
... Total Deliveries.....	12.58	12.55	12.41	12.45	12.22	12.22
... Bundled Sales.....	13.36	13.32	13.16	13.18	12.92	12.92
... Direct Access.....	6.45	6.45	6.45	6.45	6.45	6.45

¹ Electric Procurement Volumes and Average Prices are shown before the effects of netting line losses and Helms pumping

² Includes Retained Fossil, Etiwanda & EBMUD, and Puget inbound

³ Includes ISO Ancillary Services, Renewables, and Retained Fossil fuel costs net of RMR revenues and WAPA payments

EXHIBIT D TO THE DISCLOSURE STATEMENT

Schedule of Currently Outstanding Securities of the Debtor

Type of Security	Security Description	Class	CUSIP
First and Refunding Mortgage Bond	8.800%	3a	694308 DV6
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	694308 XA0
First Preferred Stock	5% Non-Redeemable	11	694308 404
First Preferred Stock	5.5% Non-Redeemable	11	694308 305
First Preferred Stock	6% Non-Redeemable	11	694308 206
First Preferred Stock	4.36% Redeemable	11	694308 883
First Preferred Stock	4.50% Redeemable	11	694308 800
First Preferred Stock	4.80% Redeemable	11	694308 701
First Preferred Stock	5% Redeemable Series D	11	694308 503
First Preferred Stock	5% Redeemable Series E	11	694308 602
First Preferred Stock	6.30% Redeemable	11	694308 651
First Preferred Stock	6.57% Redeemable	11	694308 693
First Preferred Stock	7.04% Redeemable	11	694308 685
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

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

Type of Security	Security Description	Class	CUSIP
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
Deferrable Interest Subordinated Debentures ¹	7.90% Series A	9	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

¹Holders of Claims in this Class currently hold Cumulative Quarterly Income Preferred Securities (CUSIP 69331F 200) which are to be exchanged for the security listed.

	Type of Security	Security Description	Class	CUSIP
1	Southern San Joaquin Valley Power Authority	9.400%	5	843787 AL6
2	Southern San Joaquin Valley Power Authority	9.450%	5	843787 AM4
3	Southern San Joaquin Valley Power Authority	9.450%	5	843787 AN2
4	Southern San Joaquin Valley Power Authority	9.600%	5	843787 AU6
5				
6	Bank Line	Floating	5	No CUSIP
7	DWR	7.400%	5	No CUSIP
8	Floating Rate Notes	Floating Rate Note	5	694308 FT9
9	Floating Rate Notes	Floating Rate Note	5	U69430 AB9
10	Senior Notes	7.375% Senior Note	5	694308 FU6
11	Senior Notes	7.375% Senior Note	5	U69430 AC7
12	Medium-Term Notes B	8.180%	5	69430T AT8
13	Medium-Term Notes B	8.200%	5	69430T AY7
14	Medium-Term Notes B	8.120%	5	69430T BN0
15	Medium-Term Notes B	8.130%	5	69430T BL4
16	Medium-Term Notes B	8.120%	5	69430T BR1
17	Medium-Term Notes B	7.950%	5	69430T BT7
18	Medium-Term Notes B	7.930%	5	69430T BX8
19	Medium-Term Notes B	7.960%	5	69430T CB5
20	Medium-Term Notes B	8.000%	5	69430T CD1
21	Medium-Term Notes B	7.960%	5	69430T CF6
22	Medium-Term Notes B	7.970%	5	69430T CG4
23	Medium-Term Notes B	7.960%	5	69430T CK5
24	Medium-Term Notes B	7.970%	5	69430T CL3
25	Medium-Term Notes B	8.450%	5	69430T CM1
26	Medium-Term Notes B	7.750%	5	69430T DA6
27	Medium-Term Notes B	7.500%	5	69430T CZ2
28	Medium-Term Notes B	7.375%	5	69430T DB4
29	Medium-Term Notes B	7.670%	5	69430T DK4
30	Medium-Term Notes B	7.650%	5	69430T DP3
31	Medium-Term Notes B	8.140%	5	69430T DS7
32	Medium-Term Notes C	7.660%	5	69430T DV0
33	Medium-Term Notes C	7.650%	5	69430T DW8
34	Medium-Term Notes C	8.140%	5	69430T DZ1
35	Medium-Term Notes C	7.730%	5	69430T EB3
36	Medium-Term Notes C	8.270%	5	69430T EC1
37	Medium-Term Notes C	7.560%	5	69430T EG2
38	Medium-Term Notes C	8.040%	5	69430T EK3
39	Medium-Term Notes C	6.290%	5	69430T EV9
40	Medium-Term Notes C	6.680%	5	69430T FR7
41	Medium-Term Notes C	7.570%	5	69430T FX4
42	Medium-Term Notes C	5.940%	5	69430T GP0
43	Medium-Term Notes C	6.710%	5	69430T GH8
44	Medium-Term Notes C	5.810%	5	69430T GT2
45	Medium-Term Notes C	5.930%	5	69430T GR6
46	Medium-Term Notes C	6.030%	5	69430T GS4

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

Type of Security	Security Description	Class	CUSIP
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	69430T JL6
Medium-Term Notes D	7.880%	5	69430T JM4

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation