

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

In re

PACIFIC GAS AND ELECTRIC COMPANY, a
California corporation,
Debtor.

Federal I.D. No. 94-0742640

Case No. 01-30923 DM

Chapter 11 Case

CALIFORNIA PUBLIC UTILITIES COMMISSION'S PLAN OF
REORGANIZATION UNDER CHAPTER 11 OF THE
BANKRUPTCY CODE FOR PACIFIC GAS AND ELECTRIC
COMPANY

Dated May 17, 2002

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

ARTICLE I

DEFINITIONS AND CONSTRUCTION OF TERMS

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

92A Bonds means those certain California Pollution Control Financing Authority, 6⁵/₈% Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1992 Series A issued by the Issuer in the aggregate principal amount of \$35,000,000.

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

93A Bonds means those certain California Pollution Control Financing Authority, 5⁷/₈% Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1993 Series A issued by the Issuer in the aggregate principal amount of \$60,000,000.

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

96B Bonds means those certain California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series B issued by the Issuer in the aggregate principal amount of \$160,000,000.

96C Bonds means those certain California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series C issued by the Issuer in the aggregate principal amount of \$200,000,000.

96D Bonds means those certain California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series D issued by the Issuer in the aggregate principal amount of \$100,000,000.

96E Bonds means those certain California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series E issued by the Issuer in the aggregate principal amount of \$165,000,000.

96F Bonds means those certain California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series F issued by the Issuer in the aggregate principal amount of \$100,000,000.

96G Bonds means those certain California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1996 Series G issued by the Issuer in the aggregate principal amount of \$62,870,000.

97A Bonds means those certain California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series A issued by the Issuer in the aggregate principal amount of \$45,000,000.

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

97B Bonds means those certain California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series B issued by the Issuer in the aggregate principal amount of \$148,550,000.

97C Bonds means those certain California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series C issued by the Issuer in the aggregate principal amount of \$148,550,000.

97D Bonds means those certain California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series D issued by the Issuer in the aggregate principal amount of \$17,900,000.

Administrative Expense Claims means all Claims against the Debtor constituting a cost or expense of administration of the Chapter 11 Case under sections 503(b) and 507(a)(1) of the Bankruptcy Code, including, without limitation, all actual and necessary costs and expenses of preserving the Debtor's estate, all actual and necessary costs and expenses of operating the business of the Debtor-in-Possession, any indebtedness or obligations incurred or assumed by the Debtor-in-Possession in connection with the conduct of its business, all cure amounts owed in respect of executory contracts and unexpired leases assumed by the Debtor-in-Possession, all Professional Compensation and Reimbursement Claims, and any fees or charges assessed against the Debtor's estate under section 1930 of chapter 123 of title 28 of the United States Code.

Affiliate has the meaning set forth in section 101(2) of the Bankruptcy Code.

Allowed means, with reference to any Claim against or Equity Interest in the Debtor, (a) any Claim which has been listed by the Debtor in the Debtor's Bankruptcy Schedules, as such Schedules may be amended by the Debtor from time to time in accordance with Bankruptcy Rule 1009, as liquidated in amount and not disputed or contingent and for which no contrary proof of claim or objection to claim has been filed, (b) any Claim or Equity Interest allowed hereunder, (c) any Claim or Equity Interest which is not Disputed, (d) any Claim or Equity Interest that is compromised, settled or otherwise resolved pursuant to a Final Order of the Bankruptcy Court or under the Plan, or (e) any Claim or Equity Interest which, if Disputed, has been Allowed by Final Order; provided, however, that Claims allowed solely for the purpose of voting to accept or reject this Plan or PG&E's Plan pursuant to an order of the Bankruptcy Court shall not be considered "Allowed Claims" hereunder. Unless otherwise specified herein or by order of the Bankruptcy Court, "Allowed Administrative Expense Claim" or "Allowed Claim" shall not, for any purpose under the Plan, include interest on such Administrative Expense Claim or Claim, as the case may be, from and after the Petition Date.

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

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

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

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

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

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

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

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

Bond Trustee means, with respect to the PC Bonds, Bankers Trust Company, a state banking corporation organized under the laws of the State of New York, as trustee, or U.S. Bank Trust National Association, as trustee, under the Indenture pursuant to which such PC Bonds were issued, as applicable, and their successors and assigns or any successor trustee under such Indentures appointed in accordance with the terms thereof.

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

Cash means legal tender of the United States of America.

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

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

Chromium Litigation means Causes of Action against the Debtor relating to alleged chromium contamination, including, but not limited to, the following sixteen (16) civil actions pending in California courts: (i) Aguayo v. Pacific Gas and Electric Company, filed March 15, 1995 in Los Angeles County Superior Court, (ii) Aguilar v. Pacific Gas and Electric Company, filed October 4, 1996 in Los Angeles County Superior Court, (iii) Acosta, et al. v. Betz Laboratories, Inc. et al., filed November 27, 1996 in Los Angeles County Superior Court, (iv) Adams v. Pacific Gas and Electric Company and Betz Chemical Company, filed July 25, 2000 in Los Angeles County Superior Court, (v) Baldonado v. Pacific Gas and Electric Company, filed October 25, 2000 in Los Angeles Superior Court, (vi) Gale v. Pacific Gas and Electric Company, filed January 30, 2001 in Los Angeles County Superior Court, (vii) Monice v. Pacific Gas & Electric Company, filed March 15, 2001 in San Bernardino County Superior Court, (viii) Fordyce v. Pacific Gas & Electric Company, filed March 16, 2001 in San Bernardino County Superior Court, (ix) Puckett v. Pacific Gas & Electric Company, filed March 30, 2001 in Los Angeles County Superior Court, (x) Alderson, et al. v. PG&E Corporation, Pacific Gas and Electric Company, Betz Chemical Company, et al., filed April 11, 2001 in Los Angeles County Superior Court, (xi) Bowers et al. v. Pacific Gas and Electric Company, et al., filed April 20, 2001 in Los Angeles County Superior Court, (xii) Boyd et al. v. Pacific Gas and Electric Company, et al., filed May 2, 2001 in Los Angeles County Superior Court, (xiii) Martinez et al. v. Pacific Gas and Electric Company, filed June 29, 2001 in Los Angeles County Superior Court, (xiv) Kearny v. Pacific Gas and Electric Company, filed November 15, 2001 in Los Angeles County Superior Court, (xv) Miller v. Pacific Gas and Electric Company, filed November 21, 2001 in Los Angeles County Superior Court, and (xvi) Lytle v. Pacific Gas and Electric Company, filed March 22, 2002 in Yolo County Superior Court.

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

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

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

Clerk means the Clerk of the Bankruptcy Court.

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

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

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

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

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

Committee means the official Committee of Unsecured Creditors appointed in the Chapter 11 Case by the United States Trustee pursuant to section 1102 of the Bankruptcy Code, as reconstituted from time to time. As of the date hereof, the Committee is comprised of Reliant Energy, Inc., Dynegy Power Marketing, Inc., P-E Berkeley, Inc., GWF Power Systems Company, Inc., Bank of America, N.A., Morgan Guaranty, Merrill Lynch, Pierce, Fenner & Smith, Incorporated, Davey Tree Expert Co., the City of Palo Alto, California, the State of Tennessee and Pacific Investment Management Company LLC.

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

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

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

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

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

Confirmation Order means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code, which order shall be in form and substance reasonably satisfactory to the Commission.

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

CPU Code means the California Public Utilities Code.

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

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

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

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

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

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

Disclosure Statement means the Disclosure Statement for the Commission's Plan of Reorganization under Chapter 11 of the Bankruptcy Code for the Debtor, dated May 17, 2002, including, without limitation, all exhibits and schedules thereto, as approved by the Bankruptcy Court pursuant to the Disclosure Statement Order.

Disclosure Statement Order means the order of the Bankruptcy Court entered pursuant to section 1125 of the Bankruptcy Code approving the Disclosure Statement.

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

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

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

Effective Date means the second (2nd) Business Day after the date on which the conditions specified in Section 8.2 hereof have been satisfied or waived.

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

Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims means all Environmental Claims, Fire Suppression Claims, Pending Litigation Claims, Tort Claims and FERC License Claims.

Environmental Claims means all Claims against the Debtor arising from (i) any accusation, allegation, notice of violation, action, claim, environmental Lien, demand, abatement or other order, restriction or direction (conditional or otherwise) by any Governmental Entity or any other Person for personal injury (including, but not limited to, sickness, disease or death), tangible or intangible property damage, Punitive Damages, damage to the environment, nuisance, pollution, contamination or other adverse effect on the environment or costs (to the extent recoverable under applicable non-bankruptcy law) of any Governmental Entity related thereto, in each case resulting from or based upon (a) the existence, or the continuation of the existence, of a release of (including, but not limited to, sudden or non-sudden accidental or non-accidental releases), or exposure to, any hazardous or deleterious material, substance, waste, pollutant or contaminant, odor or audible noise in, into or onto the environment (including, but not limited to, the air, soil, surface water or groundwater) at, in, by, from or related to any property (including any vessels or facilities of the Debtor) presently or formerly owned, operated or leased by the Debtor or any activities or operations thereon, (b) the transportation, storage, treatment or disposal of any hazardous or deleterious material, substance, waste, pollutant or contaminant in connection with any property presently or formerly owned, operated or leased by the Debtor or its operations or facilities, or (c) the violation or alleged violation, of any environmental law, order or environmental permit or license of or from any Governmental Entity relating to environmental matters connected with any property presently or formerly owned, operated or leased by the Debtor; and (ii) any claim for indemnification or contribution (whether based on contract, statute or common law) against the Debtor by any third party, where such indemnification or contribution claim of such third party is based on a claim against such third party that if asserted directly against the Debtor would be a claim included with the immediately preceding clause (i); provided, however, that Environmental Claims shall not include (i) any Claims fully settled, liquidated or determined by a Final Order or a binding award, agreement or settlement prior to the Petition Date for amounts payable by the Debtor for damages or other obligations in a fixed dollar amount payable in a lump sum or by a series of payments (which Claims are classified as General Unsecured Claims), (ii) Tort Claims, (iii) Fire Suppression Claims, (iv) Pending Litigation Claims, or (v) FERC License Claims.

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

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

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

ESP means energy service provider.

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

Existing Tax Sharing Agreement means that agreement, dated as of January 1, 1997, for the allocation of income tax liability between the Debtor and the Parent.

Exit Facility has the meaning set forth in Section 7.6 hereof.

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

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

FERC means the Federal Energy Regulatory Commission.

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

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

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

First and Refunding Mortgage Bonds means (i) 6.250% First and Refunding Mortgage Bonds Series 93C due August 1, 2003, (ii) 6.25% First and Refunding Mortgage Bonds Series 93G due March 1, 2004, (iii) 5.875% First and Refunding Mortgage Bonds Series 93E due October 1, 2005, (iv) variable rate First and Refunding Mortgage Bonds Series 81B due August 1, 2011, (v) 8.800% First and Refunding Mortgage Bonds Series 91A due May 1, 2024, (vi) 8.375% First and Refunding Mortgage Bonds Series 92B due May 1, 2025, (vii) 8.250% First and Refunding Mortgage Bonds Series 92D due November 1, 2022, (viii) 7.25% First and Refunding Mortgage Bonds Series 93A due March 1, 2026, (ix) 7.250% First and Refunding Mortgage Bonds Series 93D due August 1, 2026, (x) 6.750% First and Refunding Mortgage Bonds Series 93F due October 1, 2023, and (xi) 7.050% First and Refunding Mortgage Bonds Series 93H due March 1, 2024, each issued by the Debtor under the Mortgage, together with any Matured and Unpresented First and Refunding Mortgage Bonds, provided, that the Debtor is not waiving any rights or claims it may have under applicable non-bankruptcy law against any holder of any Matured and Unpresented First and Refunding Mortgage Bond or any other party with respect thereto.

First and Refunding Mortgage Bond Documents means with respect to each series of First and Refunding Mortgage Bonds, the Mortgage, and all of the other documents, instruments, agreements

and certificates evidencing, securing, governing or otherwise pertaining to the respective Mortgage Loan or the respective series of First and Refunding Mortgage Bonds or otherwise executed and delivered by or on behalf of the Debtor in connection with any of the foregoing, together with all amendments, modifications, renewals, substitutions and replacements of or to any of the foregoing.

Floating Rate Note Claims means all Claims arising from the Floating Rate Notes.

Floating Rate Notes means the Floating Rate Notes due October 31, 2001, issued by the Debtor under an indenture by and between the Debtor and Wilmington Trust Company, as successor-in-interest to The Bank of New York, dated September 1, 1987, together with all amendments, modifications, renewals, substitutions and replacements thereof.

Forbearance, Extension and Letter of Credit Fees has the meaning set forth in Section 4.10(b)(iv) hereof.

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

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

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

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

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

Interest Period means the period commencing on any interest payment date specified herein and ending on the day preceding the next succeeding interest payment date; except in respect of the first interest period which extends to June 30, 2002, where the Interest Period shall commence on the earlier of the Petition Date or the date specified on Exhibit 1 hereto and shall end on June 30, 2002 and the second interest period shall commence on July 1, 2002.

Investment Grade Credit Rating means credit ratings from S&P of BBB- or better and Moody's of Baa3 or better.

IRS means the United States Internal Revenue Service.

ISO means the California Independent System Operator.

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

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

LC Bank Agreement has the meaning set forth in Section 4.2(b) hereof.

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

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

Letter of Credit Backed PC Bonds means collectively, any series of 96C Bonds, 96E Bonds, 96F Bonds and/or 97B Bonds that are outstanding as of the Voting Record Date or the Effective Date, as applicable.

Letter of Credit Issuing Bank means, with respect to each series of Letter of Credit Backed PC Bonds, the issuer of the Letter of Credit.

Letter of Credit Bank Claims means all Claims against the Debtor relating to (a) the contingent Claims of each Letter of Credit Issuing Bank and the applicable Banks, if any, with respect to payments which may become due by the Debtor under their respective Reimbursement Agreements (as modified by the LC Bank Agreement), including, without limitation, any and all amounts due by the Debtor as reimbursement of amounts paid by a Letter of Credit Issuing Bank under its Letter of Credit to the Bond Trustee for the payment of interest on the related Letter of Credit Backed PC Bonds and any and all interest and fees due thereunder, and (b) the Claims of the Letter of Credit Issuing Banks and the applicable Banks, if any, for any and all accrued and unpaid amounts due by the Debtor under their respective Reimbursement Agreements (as modified by the LC Bank Agreement), including amounts due as reimbursement of amounts paid by each Letter of Credit Issuing Bank under its respective Letter of Credit to the Bond Trustee for the payment of interest on the related series of Letter of Credit Backed PC Bonds and any and all fees due thereunder.

LIBOR means, with respect to each Interest Period, the rate per annum appearing on Bloomberg Professional page BBAM1 (or any successor page) as the London interbank offered rate for deposits in U.S. dollars having the index maturity designated by the Debtor at approximately 11:00 a.m. (London time) on the LIBOR Interest Determination Date. If no rate appears on Bloomberg Professional page BBAM1, LIBOR shall mean the rate per annum appearing on Bridge Telerate Inc. page 3750 (or any successor page) as the London interbank offered rate for deposits in U.S. dollars having the index maturity designated by the Debtor at approximately 11:00 a.m. (London time) on the LIBOR Interest Determination Date. If no rate appears on Bridge Telerate page 3750, the Debtor will request the principal London offices of each of four (4) major reference banks in the London interbank market, as selected by the Debtor, to provide the Debtor with its offered quotation for deposits in U.S. dollars having the index maturity designated by the Debtor to prime banks in the London interbank market at approximately 11:00 a.m. (London time) on such LIBOR Interest Determination Date and in a

principal amount that is representative of a single transaction in U.S. dollars in such market at such time. LIBOR determined will be the arithmetic mean of the offered quotations. If fewer than two (2) quotations are provided, LIBOR determined on such LIBOR Interest Determination Date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. in New York City on such LIBOR Interest Determination Date, by three (3) major banks in New York City selected by the Debtor for loans in U.S. dollars to leading European banks, having the index maturity designated by the Debtor that is representative for a single transaction in U.S. dollars in such market at such time. If the banks so selected are not quoting as mentioned above, LIBOR will remain LIBOR in effect on such LIBOR Interest Determination Date.

LIBOR Interest Determination Date means, for an Interest Period, the second (2nd) London Business Day immediately preceding the first day of that Interest Period; except that in the period prior to the Initial Calculation Date, the LIBOR Interest Determination Dates for (a) Allowed Claims under International Swap Dealers Association (“ISDA”) Agreements shall be the Petition Date and each anniversary thereof prior to the Initial Calculation Date, and (b) Allowed Claims for power generators shall be determined between the Debtor and each such power generator, notwithstanding the fact that none of such dates is an interest payment date.

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

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

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

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

MBIA means MBIA Insurance Corporation.

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

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

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

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

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

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

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

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

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

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

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

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

New Tax Sharing Agreement means the agreement to be entered into between the Parent and the Reorganized Debtor for the allocation of income tax liability, substantially in the form of Exhibit 4 to the Plan.

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

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

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

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

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

PC Bond Documents means, with respect to each series of PC Bonds, the Loan Agreement, Indenture, and all of the other documents, instruments, agreements and certificates evidencing, securing, governing or otherwise pertaining to the respective Bond Loan or the respective series of PC Bonds or otherwise executed and delivered by or on behalf of the Debtor in connection with any of the

foregoing, together with all amendments, modifications, renewals, substitutions and replacements of or to any of the foregoing.

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

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

Pending Litigation Claims means all Claims against the Debtor that are asserted in litigation pending against the Debtor and that are listed in an amendment to PG&E's Plan Supplement; provided, however, that Pending Litigation Claims shall not include (a) any Claims settled, liquidated or determined by a Final Order or a binding award, agreement or settlement prior to the Petition Date for amounts payable by the Debtor for damages or other obligations in a fixed dollar amount payable in a lump sum or by a series of payments (which Claims are classified as General Unsecured Claims), (b) Environmental Claims, (c) Fire Suppression Claims, (d) Tort Claims, or (e) FERC License Claims.

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

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

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

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

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

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

Preferred Stock means the issued and outstanding shares of the Debtor's First Preferred Stock, par value \$25.00 per share. The Debtor's outstanding First Preferred Stock is comprised of: (a) 6% Non-Redeemable First Preferred, (b) 5.5% Non-Redeemable First Preferred, (c) 5% Non-Redeemable First Preferred, (d) 5% Redeemable First Preferred Series D, (e) 5% Redeemable First Preferred Series E, (f) 4.80% Redeemable First Preferred, (g) 4.50% Redeemable First Preferred, (h) 4.36% Redeemable First Preferred, (i) 6.57% Redeemable First Preferred, (j) 7.04% Redeemable First Preferred, and (k) 6.30% Redeemable First Preferred.

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

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

Prior Bonds means, collectively, the 96B Bonds, the 96D Bonds, the 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.

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

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

Prior Reimbursement Agreement means, with respect to each series of Prior Bonds, that certain reimbursement or other agreement between the Debtor and the Prior Letter of Credit Issuing Bank providing for, among other things, the issuance of the related Prior Letter of Credit and the reimbursement of the Prior Letter of Credit Issuing Bank for draws made thereunder, together with all amendments, modifications, renewals, substitutions and replacements thereof.

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

Procedures Order means the Order of the Bankruptcy Court approving, among other things, voting solicitation procedures, the form of voting ballots, the solicitation period and the voting tabulation procedures regarding this Plan and PG&E's Plan.

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

Proponent means the Commission.

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

PX means the California Power Exchange.

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

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

QUIDS Claims means all Claims arising from the QUIDS.

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

Rate Recovery Litigation means Pacific Gas and Electric Co. v. Loretta Lynch, et al., Case No. C-00-4128-SBA in the United States District Court for the Northern District of California.

Reimbursement Agreement means, with respect to each series of Letter of Credit Backed PC Bonds, that certain reimbursement or other agreement between the Debtor and the Letter of Credit Issuing Bank and certain other Banks, if any, that are signatories thereto providing for, among other things, the issuance of the related Letter of Credit and the reimbursement of the Letter of Credit

Issuing Bank and certain other Banks, if any, that are signatories thereto for draws made under such Letter of Credit, together with all amendments, modifications, renewals, substitutions and replacements thereof.

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

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

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

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

Retirement Plan means the Pacific Gas and Electric Company Retirement Plan, a tax qualified defined benefit pension plan covered by Title IV of ERISA, as amended, 29 U.S.C. §§ 1301 et seq. (1994 & Supp. v 2000).

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

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

Secured Claim means all Claims against the Debtor, to the extent reflected in the Debtor's Bankruptcy Schedules or a proof of claim as a Secured Claim, which are secured by a Lien on Collateral but only to the extent of the value of such Collateral, as determined in accordance with section 506(a) of the Bankruptcy Code, and, in the event that such Claim is subject to a permissible setoff under section 553 of the Bankruptcy Code, to the extent of such permissible setoff.

Secured Claims Relating to First and Refunding Mortgage Bonds means all Claims against the Debtor arising from the First and Refunding Mortgage Bonds.

Senior Indebtedness means, collectively, Commercial Paper Claims, Floating Rate Note Claims, Medium Term Note Claims, Senior Note Claims and Revolving Line of Credit Claims.

Senior Note Claims means all Claims against the Debtor arising from the Senior Notes.

Senior Notes means the 7.375% Senior Notes due November 1, 2005, issued by the Debtor under an indenture by and between the Debtor and Wilmington Trust Company, as successor-in-interest to The Bank of New York, dated September 1, 1987, together with all amendments, modifications, renewals, substitutions and replacements thereof.

Settlement and Support Agreement means that certain Amended and Restated Settlement and Support Agreement dated as of March 27, 2002, by and among the Debtor, the Parent and certain holders of Senior Indebtedness who are parties thereto.

Settlement Order means the Order of the Bankruptcy Court dated March 27, 2002, entitled “Order on Motion by Pacific Gas and Electric Company for Order (A) Approving Settlement and Support Agreement By and Among Plan Proponents and Senior Debtholders, (B) Authorizing Payment of Pre-and Post-Petition Interest to Holders of Undisputed Claims in Certain Classes, (C) Authorizing Payment of Fees and Expenses of Indenture Trustees and Paying Agents and (D) Authorizing Debtor to Enter into Similar Agreements.”

Southern San Joaquin Valley Power Authority Agreement means the Agreement between the Debtor and the Southern San Joaquin Valley Power Authority dated as of July 1, 1997, and related Indenture of Trust dated as of November 1, 1991, between the Southern San Joaquin Valley Power Authority and Bank of America N.A., as Trustee in respect of amounts payable on certain bonds issued by Southern San Joaquin Power Authority maturing in 2001 through January 1, 2013, together with all amendments, modifications, renewals, substitutions and replacements thereof.

Southern San Joaquin Valley Power Authority Bond Claims means all Claims against the Debtor arising from the Southern San Joaquin Valley Power Authority Agreement.

S&P means Standard & Poor’s, a division of The McGraw Hill Companies, Inc., or its successor.

State or State of California means the State of California and all of its entities departments, boards, offices, commissions, agencies, bureaus, divisions, instrumentalities, officers, commissioners and employees.

Stated Amount means, with respect to each Letter of Credit, the aggregate amount available to be drawn thereunder, from time to time, in accordance with the terms thereof.

Tax Code means the United States Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder.

Tort Claims means (i) the Chromium Litigation Claims and all other Claims against the Debtor arising from any accusation, allegation, notice, action, claim, demand or otherwise for personal injury, tangible or intangible property damage, products liability or discrimination, or based on employment, including Punitive Damages; and (ii) any claim for indemnification or contribution (whether based on contract, statute or common law) against the Debtor by any third-party, where such indemnification or contribution claim of such third-party is based on a claim against such third-party that if asserted directly against the Debtor would be a claim included within the immediately preceding clause (i); provided, however, that Tort Claims shall not include (a) any Claims settled, liquidated or determined by a Final Order or a binding award, agreement or settlement prior to the Petition Date for amounts payable by the Debtor for damages or other obligations in a fixed dollar amount payable in a lump sum or by a series of payments (which Claims are classified as General Unsecured Claims), (b) Environmental Claims, (c) Fire Suppression Claims, (d) FERC License Claims, or (e) Pending Litigation Claims.

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

Treasury PC Bonds means, collectively, the 96G Bonds and the 97D Bonds.

Unimpaired means any Class of Claims or Equity Interests which is not Impaired.

Voting Record Date means May 21, 2002.

Workers' Compensation Claims means all Claims against the Debtor by employees of the Debtor for the payment of workers' compensation benefits under applicable law.

Workers' Compensation Indemnity Agreements means (a) the Indemnity Agreement by PG&E Corporation, dated April 7, 2000, to indemnify American Home Assurances Company in connection with issuance of Surety Bond No. 00-207-724 issued on behalf of the Debtor for Workers' Compensation, (b) the Indemnity Agreement by PG&E Corporation, dated April 7, 2000, to indemnify CAN Insurance Companies in connection with issuance of Surety Bond No. 159267371 issued on behalf of the Debtor for Workers' Compensation, (c) the Indemnity Agreement by PG&E Corporation, dated April 7, 2000, to indemnify Kemper Insurance Companies in connection with issuance of Surety Bond No. 955006 issued on behalf of the Debtor for Workers' Compensation, (d) the Indemnity Agreement by PG&E Corporation, dated April 7, 2000, to indemnify Travelers Insurance, as successor to Reliance Insurance Company, in connection with issuance of Surety Bond No. B1686191 issued on behalf of the Debtor for Workers' Compensation, and (e) the Indemnity Agreement by PG&E Corporation, dated April 7, 2000, to indemnify Firemen's Fund Insurance Company in connection with issuance of Surety Bond No. 11133362811 issued on behalf of the Debtor for Workers' Compensation.

1.2 Interpretation; Application of Definitions and Rules of Construction. Wherever from the context it appears appropriate, each term stated in either the singular or the plural shall include both the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, feminine and neuter. Unless otherwise specified, all section, article, schedule or exhibit references in the Plan are to the respective Section in, Article of, Schedule to, or Exhibit to, the Plan. The words "herein," "hereof," "hereto," "hereunder" and other words of similar import refer to the Plan as a whole and not to any particular section, subsection or clause contained in the Plan. The rules of construction contained in section 102 of the Bankruptcy Code shall apply to the construction of the Plan. A term used herein that is not defined herein, but that is used in the Bankruptcy Code, shall have the meaning ascribed to that term in the Bankruptcy Code. The headings in the Plan are for convenience of reference only and shall not limit or otherwise affect the provisions of the Plan.

ARTICLE II

TREATMENT OF ADMINISTRATIVE EXPENSE CLAIMS, PROFESSIONAL COMPENSATION AND REIMBURSEMENT CLAIMS, AND PRIORITY TAX CLAIMS

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

2.2 Professional Compensation and Reimbursement Claims. The holders of Professional Compensation and Reimbursement Claims shall file their respective final applications for allowances of compensation for services rendered and reimbursement of expenses incurred through the Confirmation

Date by no later than the date that is ninety (90) days after the Confirmation Date, or such other date as may be fixed by the Bankruptcy Court. If granted by the Bankruptcy Court, such award shall be paid in full in such amounts as are Allowed by the Bankruptcy Court either (a) on the date such Professional Compensation and Reimbursement Claim becomes an Allowed Professional Compensation and Reimbursement Claim, or as soon thereafter as is practicable, or (b) upon such other terms as may be mutually agreed upon between such holder of an Allowed Professional Compensation and Reimbursement Claim and the Debtor. Except as provided under applicable non-bankruptcy law, Post-Petition Interest will not be paid on Professional Compensation and Reimbursement Claims.

2.3 Priority Tax Claims. Except to the extent that a holder of an Allowed Priority Tax Claim has been paid by the Debtor prior to the Effective Date or agrees to a different treatment, each holder of an Allowed Priority Tax Claim shall receive, in full and complete settlement, satisfaction and discharge of its Allowed Priority Tax Claim, including Post-Petition Interest, Cash in an amount equal to such Allowed Priority Tax Claim on the later of the Effective Date and the date such Priority Tax Claim becomes an Allowed Priority Tax Claim, or as soon as practicable thereafter.

ARTICLE III

CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS

Claims against and Equity Interests in the Debtor, other than Administrative Expense Claims, Professional Compensation and Reimbursement Claims and Priority Tax Claims, are classified for all purposes, including voting, confirmation and distribution pursuant to the Plan, as follows:

Class	Claim/Interest	Status
1	Other Priority Claims	Unimpaired
2	Other Secured Claims	Unimpaired
3	Secured Claims Relating to First and Refunding Mortgage Bonds . .	Unimpaired
4a	Mortgage Backed PC Bond Claims	Unimpaired
4b	MBIA Insured PC Bond Claims	Unimpaired
4c	MBIA Claims	Impaired
4d	Letter of Credit Backed PC Bond Claims	Unimpaired
4e	Letter of Credit Bank Claims	Impaired
4f	Prior Bond Claims	Unimpaired
4g	Treasury PC Bond Claims	Unimpaired
5	General Unsecured Claims	Impaired
6	ISO, PX and Generator Claims	Impaired
7	ESP Claims	Impaired
8	Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims	Unimpaired
9	[Intentionally Left Blank]	[Intentionally Left Blank]
10	Convenience Claims	Unimpaired
11	QUIDS Claims	Impaired
12	Workers' Compensation Claims	Unimpaired

Class	Claim/Interest	Status
13	Preferred Stock Equity Interests	Unimpaired ²
14	Common Stock Equity Interests	Impaired

ARTICLE IV

TREATMENT OF CLAIMS AND EQUITY INTERESTS³

4.1 Payment of Interest. Allowed Claims shall include amounts owed with respect to the period prior to the Petition Date and applicable interest accrued and unpaid during such period. Except as otherwise provided herein, holders of Allowed Claims shall also be paid in Cash accrued and unpaid interest on such Allowed Claims from the Petition Date through the Effective Date (“Post-Petition Interest”). Except as otherwise provided herein, including Exhibit 1 attached hereto, any Post-Petition Interest shall be calculated and paid at the lowest non-default rate and in accordance with the terms specified in the applicable statute, indenture or instrument governing such Allowed Claim or, if no such instrument exists, or if the applicable instrument does not specify a non-default rate of interest, Post-Petition Interest shall be calculated and paid on such Allowed Claim at the Federal Judgment Rate. Except as provided by otherwise applicable non-bankruptcy law, Post-Petition Interest will not be paid on the following Allowed Claims: Administrative Expense Claims, Professional Compensation and Reimbursement Claims, Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims and Workers’ Compensation Claims.

² While the Commission believes that Class 13 is unimpaired by the Plan, certain holders of Preferred Stock Equity Interests may believe that Class 13 is impaired by the Plan. To avoid delaying the voting process, holders of Preferred Stock Equity Interests will be solicited to vote on the Plan as a precautionary measure so that the voting results will be available if it is determined by the Bankruptcy Court that such Class is impaired. Allowing the holders of Preferred Stock Equity Interests to vote shall be without prejudice to the Commission’s contention that this Class is unimpaired, and the Commission reserves the right to contest any objection to the unimpaired status of this Class.

³ During the Chapter 11 Case, the Debtor has entered into a number of settlements with various creditors regarding the allowance and treatment of such creditors’ Claims under PG&E’s Plan. With the exception of those settlement provisions that are unique to the allowance and treatment of such creditors’ Claims under PG&E’s Plan and are not relevant here, the provisions governing allowance and treatment of creditor Claims set forth in the creditor settlements are (i) incorporated into and made part of the Plan, and (ii) to be assumed and performed by the Debtor or Reorganized Debtor, as the case may be, under the Plan. By way of example, the Plan incorporates the principal terms of the following such settlements: the Committee Support Agreement, the Settlement and Support Agreement, the agreements between the Debtor and various of the drawn and undrawn Letter of Credit Banks, the agreements between the Debtor and certain QFs, the agreements between the Debtor and various representatives of mortgage, pollution control and other bonds issued by the Debtor or insurance relating to such bonds, the agreements between the Debtor and various generators, the PX and ISO, the Settlement and Stanislaus Commitments stipulation by and between the Debtor, the NCPA and the City of Palo Alto, and any other such similar agreements, whether or not the terms of such settlements are specifically referenced in the Commission’s Plan. In particular, there is incorporated into and made part of the Commission’s Plan and will be assumed and performed by the Debtor or the Reorganized Debtor, as the case may be, under the Commission’s Plan, the provisions of the Settlement and Support Agreement, with the exception of the “placement fee” provision, “step-up” interest rate provision in section 2(a)(ii) thereof, the provisions relating to the payment of Class 5 Claims in notes and the provisions requiring support for the PG&E Plan. Specifically, and subject to the foregoing, the Commission’s Plan incorporates and makes part of its Plan the provisions in the Settlement and Support Agreement contained in paragraphs 1, 2(a)(i), 3, 4, 5(a), (c), 12, 13, 14 (only as it relates to the Commission’s Plan and its implementation), 15, 24 and 26 thereof.

4.2 Timing of Payments and Distributions.

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

(b) Pursuant to an Order entered by the Bankruptcy Court on April 9, 2002 approving the Debtor's execution and performance under an agreement with the Letter of Credit Issuing Banks entitled "Summary of Terms with Respect to Forbearance and Proposed Revised Treatment of Letter of Credit Bank Claims in the Plan of Reorganization" (the "LC Bank Agreement"), the Debtor will (i) within ten (10) days after the approval of the LC Bank Agreement and thereafter, make payments to (A) the Letter of Credit Issuing Banks of certain reasonable fees and expenses of professionals retained by the Letter of Credit Issuing Banks, and (B) the holders of Allowed Claims in Class 4e of the Forbearance, Extension and Letter of Credit Fees, and (ii) within ten (10) days after the Confirmation Date and thereafter, pay to the holders of Allowed Claims in Class 4e the outstanding reimbursement claims under the applicable Reimbursement Agreements with respect to Letter of Credit draws for the payment of interest on the related series of Letter of Credit Backed PC Bonds, together with accrued and unpaid interest due thereon at the non-default rate to the extent provided in the applicable Reimbursement Agreements.

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

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

4.3 Class 1—Other Priority Claims.

(a) Distributions. Each holder of an Allowed Other Priority Claim, if any, shall be paid Cash in an amount equal to such Allowed Claim.

(b) Impairment and Voting. Class 1 is unimpaired by the Plan. Each holder of an Allowed Other Priority Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.4 Class 2—Other Secured Claims.

(a) Distributions/Reinstatement of Claims. The Claims of each holder of an Allowed Other Secured Claim shall, at the option of the Debtor, (i) be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code or (ii) be paid Cash in an amount equal to such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code.

(b) Impairment and Voting. Class 2 is unimpaired by the Plan. Each holder of an Allowed Other Secured Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.5 Class 3—Secured Claims Relating to First and Refunding Mortgage Bonds.

(a) Allowance. The Secured Claims Relating to First and Refunding Mortgage Bonds shall be deemed Allowed Secured Claims Relating to First and Refunding Mortgage Bonds in the amount of \$2,699,000,000⁴, plus accrued and unpaid pre-petition interest on such amount, plus Allowed Claims in the amount of all unpaid fees and expenses of the related mortgage bond trustee accrued through the Petition Date under the terms of the Mortgage.

(b) Reinstatement of Claims. The First and Refunding Mortgage Bonds and each of the First and Refunding Mortgage Bond Documents shall remain outstanding and be reinstated in accordance with section 1124(2) of the Bankruptcy Code. Each holder of an Allowed Secured Claim Relating to First and Refunding Mortgage Bonds shall be paid Cash in an amount equal to any and all accrued and unpaid interest owed to such holder in respect of such First and Refunding Mortgage Bond in accordance with the terms of the respective First and Refunding Mortgage Bond, to and including the last scheduled interest payment date preceding the Effective Date. All unpaid fees and expenses of BNY Western Trust Company due and owing under the applicable series of First and Refunding Mortgage Bonds shall also be paid in Cash.

(c) Impairment and Voting. Class 3 is unimpaired by the Plan. Each holder of an Allowed Secured Claim Relating to First and Refunding Mortgage Bonds is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.6 Class 4a—Mortgage Backed PC Bond Claims.

(a) Allowance. The Mortgage Backed PC Bond Claims shall be deemed Allowed Secured Claims in the amount of \$345,000,000, plus accrued and unpaid pre-petition interest on such amount, plus Allowed Claims in the amount of all unpaid fees and expenses of the Mortgage Bond trustee accrued through the Petition Date under the terms of the Mortgage.

(b) Reinstatement of Claims. Each series of Mortgage Backed PC Bonds, and each of the PC Bond Documents, shall remain outstanding and be reinstated in accordance with section 1124(2) of the Bankruptcy Code. Each holder of a Mortgage Backed PC Bond shall be paid Cash in an amount equal to any and all accrued and unpaid interest owed to such holder in respect of such Mortgage Backed PC Bond in accordance with the terms thereunder to and

⁴ This amount is net of the approximately \$277 million of First and Refunding Mortgage Bonds held by the Debtor in treasury.

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 shall also be paid in Cash.

(c) Impairment and Voting. Class 4a is unimpaired by the Plan. Each holder of an Allowed Mortgage Backed PC Bond Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.7 Class 4b—MBIA Insured PC Bond Claims.

(a) Allowance. The MBIA Insured PC Bond Claims shall be deemed Allowed MBIA Insured PC Bond Claims in the amount of \$200,000,000, plus accrued and unpaid pre-petition interest on such amount, plus Allowed Claims in the amount of all unpaid fees and expenses of the related Issuer and Bond Trustee accrued through the Petition Date under the terms of the applicable PC Bond Documents.

(b) Reinstatement of Claims. The MBIA Insured PC Bonds, and each of the PC Bond Documents, shall remain outstanding and be reinstated in accordance with section 1124(2) of the Bankruptcy Code. Each holder of a MBIA Insured PC Bond shall 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 of the respective MBIA Insured PC Bond, to and including the last scheduled interest payment date preceding the Effective Date. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the applicable Loan Agreement shall also be paid in Cash.

(c) Impairment and Voting. Class 4l is unimpaired by the Plan. Each holder of an Allowed MBIA Insured PC Bond Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.8 Class 4c—MBIA Claims.

(a) Allowance. The Claims of MBIA with respect to payments which may become due by the Debtor under the terms of the MBIA Reimbursement Agreement as reimbursement for payments made by MBIA under the PC Bond Insurance Policy shall be deemed contingent Claims, and the Claims of MBIA for any and all other accrued and unpaid amounts due by the Debtor under the MBIA Reimbursement Agreement, including any and all amounts due by the Debtor as reimbursement of amounts paid by MBIA under the PC Bond Insurance Policy to the Bond Trustee for the payment of interest on the MBIA Insured PC Bonds, shall be deemed Allowed MBIA Claims.

(b) Distributions. Each holder of an Allowed MBIA Claim shall be paid Cash 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.

(c) Impairment and Voting. Class 4c is impaired by the Plan. Each holder of an Allowed MBIA Claim is entitled to vote to accept or reject the Plan.

4.9 Class 4d—Letter of Credit Backed PC Bond Claims.

(a) Allowance. The Letter of Credit Backed PC Bond Claims shall be deemed Allowed Letter of Credit Backed PC Bond Claims in the amount of \$613,550,000, plus accrued and unpaid pre-petition interest on such amount, plus Allowed Claims in the amount of all unpaid fees and expenses of the related Issuer and Bond Trustee accrued through the Petition Date under the terms of the applicable PC Bond Documents.

(b) Reinstatement of Claims. Each series of Letter of Credit Backed PC Bonds, and each of the PC Bond Documents, shall remain outstanding and be reinstated in accordance with section 1124(2) 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 fees and expenses of the Issuer and Bond Trustee due and owing under the applicable Loan Agreement shall also be paid in Cash.

(c) Impairment and Voting. Class 4d is unimpaired by the Plan. Each holder of an Allowed Letter of Credit Backed PC Bond Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.10 Class 4e—Letter of Credit Bank Claims.

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

(b) Distributions.

(i) Commencing within ten (10) days after the Confirmation Date, to the extent that the Debtor has not reimbursed the applicable Letter of Credit Issuing Bank and the applicable Banks, if any, for drawings made on the related Letter of Credit with respect to the payment of interest on the related series of Letter of Credit Backed PC Bonds to the extent provided in the respective Reimbursement Agreement, each holder of an Allowed Letter of Credit Bank Claim will be paid Cash in an amount equal to its pro rata share of the aggregate amount paid by the respective Letter of Credit Issuing Bank to the respective Bond Trustee under the terms of the applicable Letter of Credit with respect to the payment of the interest on the Letter of Credit Backed PC Bonds to which such Letter of Credit Bank Claim relates during the period from the Petition Date to and including the last scheduled interest payment date on such Letter of Credit Backed PC Bonds preceding the Effective Date. Each holder of an Allowed Letter of Credit Bank Claim will also be paid Cash in an amount equal to its pro rata share of all other amounts then due and owing to the respective Letter of Credit Issuing Bank and the applicable Banks, if any, under the terms of the respective Reimbursement Agreement (other than for reimbursement of drawings on the respective Letter of Credit) through the Effective Date, including, without limitation, interest at the interest rate due on such amounts to the extent provided in the respective Reimbursement Agreements, and any due and owing Forbearance, Extension and Letter of Credit Fees (as hereinafter defined) through the Effective Date, and the reasonable fees and expenses of unrelated third-party professionals retained by the Letter of Credit Issuing Banks, to the extent incurred subsequent to the Petition Date in the Chapter 11 Case, which with respect to each Letter of Credit Issuing Bank for the period prior to December 1, 2001, to the extent payment of such fees and expenses are approved by the Bankruptcy Court prior to the Confirmation Date and such payment is made prior to the Confirmation Date, shall be in an aggregate amount equal to the amount mutually agreed to by the Debtor and each Letter of Credit Issuing Bank.

Additionally, on the Confirmation Date, 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. The interest rate on each Letter of Credit Bank Claim, interest payment start date and interest payment intervals are set forth on Exhibit 1 hereto.

(ii) 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:

(A) Purchase Option. The respective series of Letter of Credit Backed PC Bonds shall be called for mandatory tender in accordance with the terms of the respective Indenture and shall be purchased by the respective Bond Trustee through a draw on the related Letter of Credit and, at the option of the respective Letter of Credit Issuing Bank, shall either be registered in the name of the respective Letter of Credit Issuing Bank or in the name of the Debtor subject to a first lien security interest in favor of the respective Letter of Credit Issuing Bank to additionally secure the obligations of the Debtor under the related Reimbursement Agreement. On the Effective Date, to the extent that the Debtor has not reimbursed the applicable Letter of Credit Issuing Bank and the applicable Banks, if any, for drawings made on the related Letter of Credit with respect to the payment of interest on the related series of Letter of Credit Backed PC Bonds to the extent provided in the respective Reimbursement Agreement, each holder of an Allowed Letter of Credit Bank Claim will receive Cash in an amount equal to its pro rata share of the interest portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit. On the Effective Date, the Letter of Credit Issuing Bank shall transfer the related Letter of Credit Backed PC Bonds in the aggregate principal amount as set forth on Exhibit 2 attached hereto to the Debtor free and clear of all liens. On the Effective Date, each holder of an Allowed Letter of Credit Bank Claim will receive its pro rata share of Cash in an amount equal to the principal portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit.

(B) Remarketing Option. The respective series of Letter of Credit Backed PC Bonds shall be called for mandatory tender in accordance with the terms of the respective Indenture and shall be purchased by the respective Bond Trustee through a draw on the related Letter of Credit. The Debtor will then either (1) 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 (2) obtain the consent of the Issuer to remarket the respective series of Letter of Credit Backed PC Bonds without credit enhancement in accordance with the terms of the applicable Indenture. In either event the respective series of Letter of Credit Backed PC Bonds shall be remarketed, at par, in accordance with the terms of the Indenture and the other PC Bond Documents. In such event, on the Effective Date, the Letter of Credit Issuing Bank will receive (1) from the Debtor, to the extent that the Debtor has not reimbursed the applicable Letter of Credit Issuing Bank and the applicable Banks, if any, for drawings made on the related Letter of Credit with respect to the payment of interest on the related series of Letter of Credit Backed PC Bonds to the extent provided in the respective Reimbursement Agreement, Cash in an amount equal to the interest portion of the purchase price of the tendered Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit, and (2) 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.

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

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

(2) If (i) the Letter of Credit Issuing Bank maintains its Letter of Credit outstanding in its initial stated amount through the Effective Date and does not provide the Trustee with notice of default under its Reimbursement Agreement or non-reinstatement of its Letter of Credit or take any other action which would result in the redemption, either in whole or in part, of the outstanding Letter of Credit Backed PC Bonds without the prior written consent of the Debtor, and (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 herein and to consummate either the Purchase Option or the Remarketing Option as applicable, so as to maintain for the Debtor the benefits of the tax-exempt financing provided by the related series of Letter of Credit Backed PC Bonds, then in the event that the Letter of Credit Backed PC Bonds are redeemed on or prior to the Effective Date for reasons beyond the control of the Letter of Credit Issuing Bank, the Letter of Credit Issuing Bank will receive Cash in an amount equal to the principal portion of the redemption price of the redeemed Letter of Credit Backed PC Bonds paid out of a draw on the respective Letter of Credit.

(iii) Since the Petition Date, consistent with its duties as a Debtor-in-Possession, the Debtor has not reimbursed any of the Letter of Credit Issuing Banks for any of the payments they have made pursuant to the several post-petition draws by the respective Bond Trustee which have been applied to the payment of interest on the related series of Letter of Credit Backed PC Bonds. As a result thereof, each of the Letter of Credit Issuing Banks has had the right upon the passage of time, the giving of notice or both to (A) declare a default under its respective Reimbursement Agreement, (B) notify the respective Bond Trustee of such default, and (C) direct the respective Bond Trustee to call an "Event of Default" under the terms of the respective Indenture and, in accordance with the terms of the respective Indenture, cause the Bond Trustee to declare the respective series of Letter of Credit Backed PC Bonds immediately due and payable.

(iv) However, pursuant to the terms of the LC Bank Agreement, which was approved by Order of the Bankruptcy Court entered on April 9, 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 2 attached hereto, (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 existing expiration date of each Letter of Credit existing as of the Petition Date. In consideration for such forbearance and other actions by the Letter of Credit Issuing Banks, the Debtor has agreed, among other things and subject to certain conditions, to pay to each Letter of Credit Issuing Bank, (1) during the period from and after the date such payments are approved by the Bankruptcy Court and continuing until the Confirmation Date, 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 the Confirmation Date, 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 the Confirmation Date 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 the Confirmation Date 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 hereinafter referred to collectively as the “Forbearance, Extension and Letter of Credit Fees”).

(c) Impairment and Voting. Class 4e is impaired by the Plan. Each holder of an Allowed Letter of Credit Bank Claim is entitled to vote to accept or reject the Plan.

4.11 Class 4f—Prior Bond Claims.

(a) Allowance. The Prior Bond Claims shall be deemed Allowed Prior Bond Claims in the amount of \$453,550,000, plus any and all other accrued and unpaid amounts due by the Debtor under the terms of each of the Prior Reimbursement Agreements; provided, however, that each Allowed Prior Bond Claim will be paid in the amount necessary to render it unimpaired as set forth herein. The aggregate principal amount of Allowed Prior Bond Claims is subject to increase by the amount of any Letter of Credit Bank Claim that is converted to a Prior Bond Claim in accordance with Section 4.10(b)(ii)(C) hereof.

(b) Distributions. Each Allowed Prior Bond Claim will be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code. On the Effective Date one of the following shall occur with respect to each Prior Reimbursement Agreement and all of the Allowed Prior Bond Claims arising with respect thereto:

(i) Each holder of an Allowed Prior Bond Claim will be paid Cash in an amount equal to (A) the outstanding Reimbursement Obligation, or portion thereof, owing to such holder, (B) any and all accrued and unpaid interest owing to such holder in respect of such Reimbursement Obligation or applicable portion thereof at a fluctuating rate of interest in accordance with the terms of the applicable Reimbursement Agreement, and (C) all other

amounts due and owing to the respective holder of an Allowed Prior Bond Claim under the terms of the respective Prior Reimbursement Agreement, through the Effective Date.

(ii) Alternatively, upon the written request of the Debtor, with the prior written consent of the respective Prior Letter of Credit Issuing Bank, the related Banks and each of the other holders of Allowed Prior Bond Claims related thereto, each such holder of an Allowed Prior Bond Claim will be paid Cash in an amount equal to (A) any and all accrued and unpaid interest owing to such holder in respect of the Reimbursement Obligation or applicable portion thereof owing to such holder at a fluctuating rate of interest in accordance with the terms of the applicable Reimbursement Agreement, and (B) all other amounts (other than the Reimbursement Obligation or applicable portion thereof) due and owing to the respective holder of an Allowed Prior Bond Claim under the terms of the respective Prior Reimbursement Agreement, through the Effective Date. On the Effective Date, the applicable Prior Letter of Credit Issuing Bank, the related Banks and any other holders of Allowed Prior Bond Claims related thereto shall sell, transfer and assign to the Debtor or its assignee, all of the Prior Letter of Credit Issuing Banks', the applicable Banks', and all of the related Allowed Prior Bond Claim 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 interests 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.

(c) Impairment and Voting. Class 4f is unimpaired by the Plan. Each holder of an Allowed Prior Bond Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.12 Class 4g—Treasury PC Bond Claims.

(a) Allowance. The Treasury PC Bond Claims shall be deemed Allowed Treasury PC Bond Claims in the amount of \$80,770,000, plus accrued and unpaid pre-petition interest on such amount, plus Allowed Claims in the amount of all unpaid fees and expenses of the related Issuer and Bond Trustee accrued through the Petition Date under the terms of the applicable PC Bond Documents.

(b) Reinstatement of Claims. Each series of Treasury PC Bonds, and the Loan Agreements and PC Bond Documents related thereto, shall remain outstanding and be reinstated in accordance with section 1124(2) of the Bankruptcy Code. Each holder of a Treasury PC Bond shall 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 Agreement shall also be paid in Cash.

(c) Impairment and Voting. Class 4g is unimpaired by the Plan. Each holder of an Allowed Treasury PC Bond Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.13 Class 5—General Unsecured Claims.

(a) Distributions. Each holder of an Allowed General Unsecured Claim shall be paid Cash in an amount equal to such Allowed Claim (which shall include pre-petition interest only to the extent not previously paid).

(b) Impairment and Voting. Class 5 is impaired by the Plan. Each holder of an Allowed General Unsecured Claim is entitled to vote to accept or reject the Plan.

4.14 Class 6—ISO, PX and Generator Claims.

(a) Distributions. Each holder of an Allowed ISO, PX and Generator Claim shall be paid Cash in an amount equal to such Allowed Claim (which shall include pre-petition interest only to the extent not previously paid).

(b) Impairment and Voting. Class 6 is impaired by the Plan. Each holder of an Allowed ISO, PX and Generator Claim is entitled to vote to accept or reject the Plan.

4.15 Class 7—ESP Claims.

(a) Distributions. Each holder of an Allowed ESP Claim shall be paid Cash in an amount equal to such Allowed Claim (which shall include pre-petition interest only to the extent not previously paid).

(b) Impairment and Voting. Class 7 is impaired by the Plan. Each holder of an Allowed ESP Claim is entitled to vote to accept or reject the Plan.

4.16 Class 8—Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims.

(a) Distributions. Subject to Section 4.16(b), each Allowed Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claim shall be satisfied in full in the ordinary course of business at such time and in such manner as the Debtor or the Reorganized Debtor, as the case may be, is obligated to satisfy such Allowed Claim under applicable law. Except as provided under applicable non-bankruptcy law, Post-Petition Interest will not be paid on Allowed Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims.

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

Environmental Order, and (ii) the Debtor may object under section 502 of the Bankruptcy Code to any Environmental Claim, Fire Suppression Claim, Pending Litigation Claim, Tort Claim or FERC License Claim on the ground that (A) such Environmental Claim, Fire Suppression Claim, Pending Litigation Claim, Tort Claim or FERC License Claim was not timely asserted in the Chapter 11 Case, (B) such Environmental Claim, Fire Suppression Claim, Pending Litigation Claim, Tort Claim or FERC License Claim is subject to any power or defense reserved in clause (i) of this sentence and/or is disallowable under section 502(d) of the Bankruptcy Code, or (C) such Environmental Claim, Fire Suppression Claim, Pending Litigation Claim, Tort Claim or FERC License Claim is disallowable under section 502(e) of the Bankruptcy Code, to the extent such section is relied on to ensure that there is no duplication in the claim of an allegedly subrogated claimant, on the one hand, and the underlying claimant whose claim allegedly gave rise to the subrogated claim, on the other. Subject to the foregoing, all Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims shall be determined and liquidated under applicable nonbankruptcy law in the administrative or judicial tribunal in which they are pending as of the Effective Date or, if no such action is pending on the Effective Date, in any administrative or judicial tribunal of appropriate jurisdiction (other than the Bankruptcy Court). To effectuate the foregoing, the entry of the Confirmation Order shall, effective as of the Effective Date, constitute a modification of any stay or injunction under the Bankruptcy Code that would otherwise preclude the determination, resolution, or adjudication of any Environmental Claims, Fire Suppression Claims, Pending Litigation Claims, Tort Claims or FERC License Claims, except for any Environmental Claim, Fire Suppression Claim, Pending Litigation Claim, Tort Claim or FERC License Claim arising out of the exercise by the Debtor, as Debtor-in-Possession, of any rejection, avoidance, recovery, or other power or defense available to it pursuant to any one or more of sections 365, 510 (except subordination), 542, 543, 544, 545, 547, 548, 549, 550, 553 or 724 of the Bankruptcy Code, except with respect to any Environmental Order. Nothing contained in this section 4.16(b) will constitute or be deemed to constitute a waiver or release of any (i) claim, right or Cause of Action that the Debtor or Reorganized Debtor may have against any Person or Governmental Entity in connection with or arising out of any Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims, including, but not limited to, any rights under Section 157(b) of Title 28, United States Code, or (ii) defense in any action or proceeding in any administrative or judicial tribunal, including, but not limited to, with respect to the jurisdiction of such administrative or judicial tribunal, except a defense to a Claim that was timely filed in the Chapter 11 Case and that constitutes an Environmental Claim, a Fire Suppression Claim, a Pending Litigation Claim, a Tort Claim or a FERC License Claim, where such defense is based on the discharge of section 1141(d) of the Bankruptcy Code. In light of the unimpaired pass-through treatment of Environmental Claims, Fire Suppression Claims, Pending Litigation Claims, Tort Claims and FERC License Claims hereunder, the Reorganized Debtor waives the discharge of section 1141(d) of the Bankruptcy Code as to any Claim that was timely filed in the Chapter 11 Case and that constitutes an Environmental Claim, a Fire Suppression Claim, a Pending Litigation Claim, a Tort Claim or a FERC License Claim.

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

(c) Impairment and Voting. Class 8 is unimpaired by the Plan. Each holder of an Allowed Environmental, Fire Suppression, Pending Litigation, Tort or FERC License Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.17 [Intentionally Left Blank].

4.18 Class 10—Convenience Claims.

(a) Distributions. Each holder of an Allowed Convenience Claim shall be paid Cash in an amount equal to one hundred percent (100%) of such Allowed Claim.

(b) Impairment and Voting. Class 10 is unimpaired by the Plan. Each holder of an Allowed Convenience Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.19 Class 11—QUIDS Claims.

(a) Allowance. The QUIDS Claims shall be deemed Allowed QUIDS Claims in the amount of \$300,000,000, plus accrued and unpaid pre-petition interest on such amount.

(b) Distributions. Each holder of an Allowed QUIDS Claim shall be paid Cash in an amount equal to such Allowed Claim.

(c) Impairment and Voting. Class 11 is impaired by the Plan. Each holder of an Allowed QUIDS Claim is entitled to vote to accept or reject the Plan.

4.20 Class 12- Workers' Compensation Claims.

(a) Distributions. Each Allowed Workers' Compensation Claim arising prior to the Petition Date shall be satisfied in full in the ordinary course of business at such time and in such manner as the Debtor or the Reorganized Debtor, as the case may be, is obligated to satisfy such Allowed Claim under applicable law. Post-Petition Workers' Compensation Claims are treated as Administrative Expense Claims 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. Nothing herein shall affect (i) the subrogation rights, to the extent applicable or available, of any surety of pre-petition or post-petition Workers' Compensation Claims or (ii) the rights of the Debtor to object, pursuant to the Bankruptcy Code, to the existence of any such subrogation rights.

(b) Impairment and Voting. Class 12 is unimpaired under the Plan. Each holder of an Allowed Workers' Compensation Claim is conclusively presumed to have accepted the Plan and is not entitled to vote to accept or reject the Plan.

4.21 Class 13—Preferred Stock Equity Interests.

(a) Treatment. Each holder of a Preferred Stock Equity Interest shall retain its Preferred Stock in the Reorganized Debtor and shall 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.

(b) Impairment and Voting. While the Commission believes that Class 13 is unimpaired by the Plan, certain holders of Preferred Stock Equity Interests may believe that Class 13 is impaired by the Plan. To avoid delaying the voting process, holders of Preferred Stock Equity Interests are being solicited to vote on the Plan as a precautionary measure so that the voting results will be available if it is determined by the Bankruptcy Court that such Class is impaired. Allowing the holders of Preferred Stock Equity Interests to vote shall be without prejudice to the Commission's

contention that this Class is unimpaired and the Commission reserves the right to contest any objection to the unimpaired status of this Class.

4.22 Class 14—Common Stock Equity Interests.

(a) Treatment. The holders of Common Stock Equity Interests shall retain their interests in the Common Stock subject to dilution resulting from the issuance of Common Stock by the Reorganized Debtor as described in Article VII hereof.

(b) Impairment and Voting. Class 14 is impaired by the Plan. Each holder of an Allowed Common Stock Equity Interest is entitled to vote to accept or reject the Plan.

ARTICLE V

PROVISIONS REGARDING VOTING AND DISTRIBUTIONS UNDER THE PLAN AND TREATMENT OF DISPUTED, CONTINGENT AND UNLIQUIDATED ADMINISTRATIVE EXPENSE CLAIMS, CLAIMS AND EQUITY INTERESTS

5.1 Voting of Claims and Equity Interests. Each holder of record as of the Voting Record Date of an Allowed Claim or Equity Interest in an Impaired Class of Claims or Equity Interests set forth in Article IV hereof shall be entitled to vote separately to accept or reject the Plan with regard to each Impaired Class of Claims or Equity Interests as provided in the Procedures Order. If the Debtor objects to a Claim, the Claim becomes a Disputed Claim. The holder of a Disputed Claim is not entitled to vote on the Plan unless the Debtor or such holder of the Disputed Claim obtains an order of the Bankruptcy Court estimating the amount of the Disputed Claim for voting purposes. If the Debtor does not object to a Claim prior to the date on which the Disclosure Statement and the Ballot are transmitted to creditors and interest holders for voting, then the holder of such Claim will be permitted to vote on the Plan in the full amount of the Claim as filed.

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

5.3 Nonconsensual Confirmation. If any Impaired Class of Claims or Equity Interests entitled to vote shall not accept the Plan by the requisite statutory majorities provided in section 1126(c) of the Bankruptcy Code, then the Commission reserves the right to amend the Plan in accordance with Section 11.10 hereof or to undertake to have the Bankruptcy Court confirm the Plan under section 1129(b) of the Bankruptcy Code, or both.

5.4 Method of Distributions Under the Plan.

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

(b) Distributions to Holders as of the Distribution Record Date.

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

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

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

(d) Timing of Distributions. Except as otherwise set forth in the Plan, payments and distributions to holders of Allowed Claims or Equity Interests on the Effective Date shall be made on the Effective Date, or as soon as practicable thereafter. Any payment or distribution required to be made under the Plan on a day other than a Business Day shall be made on the next succeeding Business Day.

(e) Allocation of Plan Distributions. All distributions in respect of Allowed Claims shall be allocated first to the portion of such Claims representing interest (as determined for federal income tax purposes), second to the original principal amount of such Claims (as determined for federal income tax purposes), and any excess to the remaining portion of such Claims.

(f) Minimum Distributions. No payment of Cash less than one hundred dollars (\$100) shall be made by the Debtor to any holder of an Allowed Claim or Equity Interest unless a request therefor is made in writing to the Debtor.

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

(h) Escrow for Disputed Claims.

(i) General Treatment. On the Effective Date (or as soon as practicable thereafter), and after making all distributions required to be made on the Effective Date, the Reorganized Debtor shall establish one or more separate escrows, each of which shall be administered by the Disbursing Agent in accordance with the terms hereof and pursuant to the direction of the Bankruptcy Court, and shall deposit or segregate into such escrow account(s) sufficient Cash to make distributions in respect of Disputed Claims; provided, however, that this provision shall not apply to Environmental Claims, Fire Suppression Claims, Pending Litigation Claims, Tort Claims, FERC License Claims and Workers' Compensation Claims. No distributions from the escrow(s) shall be made until such Disputed Claims have been Allowed or otherwise resolved by the Bankruptcy Court and any such distributions shall be made in accordance with

the terms hereof. The Cash deposited into the escrow account(s) shall be invested in either (i) money market funds consisting primarily of short-term U.S. treasury securities, or (ii) obligations guaranteed by the United States of America or any agency thereof, at the Debtor's option. To the extent a Disputed Claim becomes an Allowed Claim, such Allowed Claim will be satisfied in the same manner as all other Allowed Claims of the same Class. In addition, the holder of such a Claim will receive Post-Petition Interest (to the extent such holder is entitled to Post-Petition Interest under the Plan). From and after the Effective Date, such Disputed Claim will earn interest at the same rate earned on the Cash deposited in escrow.

(ii) Termination of Escrow(s). The escrow(s) shall be terminated by the Reorganized Debtor when all distributions from the escrow account(s) have been made in accordance with the Plan. If any Cash remains in an escrow account after all Disputed Claims for which such escrowed property is being held have been resolved and distributions made in respect thereof, such Cash shall revert to and become property of the Reorganized Debtor. In determining the aggregate amount necessary to fund any escrow account(s), the Debtor may deposit the estimated allowable amount of any Disputed Claim, as determined by the Bankruptcy Court. Any such escrow(s) established pursuant to this section 5.4(h) shall be subject to the continuing jurisdiction of the Bankruptcy Court.

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

5.5 Objections to and Resolution of Administrative Expense Claims and Claims. Except as to applications for allowance of compensation and reimbursement of Professional Compensation and Reimbursement Claims under sections 330 and 503 of the Bankruptcy Code, the Reorganized Debtor shall, on and after the Confirmation Date, have the right to make and file objections to Administrative Expense Claims and Claims. In addition, the Commission shall, on and after the Confirmation Date, have full party-in-interest status to make and file objections to Administrative Expense Claims and Claims and to appear and be heard with respect thereto. Except as to applications for allowance of compensation and reimbursement of Professional Compensation and Reimbursement Claims under sections 330 and 503 of the Bankruptcy Code, and with respect to objections filed by the Commission, on and after the Effective Date, the Reorganized Debtor, shall have the authority to compromise, settle, otherwise resolve or withdraw any objections to Administrative Expense Claims and Claims and compromise, settle or otherwise resolve Disputed Administrative Expense Claims and Disputed Claims without the approval of the Bankruptcy Court. Unless otherwise ordered by the Bankruptcy Court, (a) all objections to Claims (except for Administrative Expense Claims) shall be served and filed upon the holder of the Claim as to which the objection is made (and, as applicable, upon the Debtor, the Committee and the Commission) as soon as practicable, but in no event later than the Effective Date, and (b) all objections to Administrative Expense Claims shall be served and filed upon the holder of the Administrative Expense Claim as to which the objection is made (and, as applicable, upon the Debtor, the Committee and the Commission) as soon as practicable, but in no event later than ninety (90) days after the Effective Date.

5.6 Payment of the Trustees', Issuer's and Certain Bank Fees. To the extent allowed by law and any underlying agreement, any unpaid fees and expenses accrued through the Confirmation Date (except for any unpaid fees and expenses previously disallowed by the Bankruptcy Court) of the Bond Trustees and the trustees under the Mortgage, and various indentures, including, but not limited to, the

Southern San Joaquin Valley Power Authority Agreement (acting in their capacities as trustees and, if applicable, acting in their capacities as disbursing agents), the Issuer of the PC Bonds and their respective professionals, and Bank of America, N.A., in its capacity as administrative agent under the Revolving Line of Credit (including such administrative agent's attorney's fees), shall be paid by the Debtor within ten (10) days after the Confirmation Date. Any such fees and expenses accruing after the Confirmation Date shall be payable as provided in the applicable agreement providing for such payment, or, in the case of Bank of America, N.A., in its capacity as administrative agent under the Revolving Line of Credit, at least quarterly. Upon payment of such fees and expenses, such Persons shall be deemed to have released their Liens securing payment of their fees and expenses for all fees and expenses accrued through the Effective Date.

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

ARTICLE VI

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

6.1 Assumption and Rejection of Executory Contracts and Unexpired Leases. Pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, all executory contracts and unexpired leases that exist between the Debtor and any Person or Governmental Entity shall be deemed assumed by the Debtor as of the Effective Date, except that any executory contract or unexpired lease shall be deemed rejected by the Debtor as of the Effective Date (i) that has been rejected pursuant to a Final Order of the Bankruptcy Court entered prior to the Confirmation Date, (ii) as to which a motion for approval of the rejection of such executory contract or unexpired lease has been filed and served prior to the Confirmation Date or (iii) that is set forth in Schedule 6.1(a)(i) of PG&E's Plan Supplement (executory contracts) (which Schedule is hereby amended to include the Existing Tax Sharing Agreement), or Schedule 6.1(a)(ii) of PG&E's Plan Supplement (unexpired leases)⁵; provided, however, that the Debtor reserves the right, on or prior to the conclusion of the Confirmation Hearing, to amend Schedules 6.1(a)(i) and 6.1(a)(ii) to PG&E's Plan Supplement to delete any executory contract or unexpired lease therefrom or to add any executory contract or unexpired lease thereto, in which event such executory contract(s) or unexpired lease(s) shall be deemed to be assumed by the Debtor or rejected, as the case may be, as of the Effective Date. The Debtor will give notice of any such amendment to each counterparty to any executory contract or unexpired lease the status of which is changed as a result of the amendment (i.e., any executory contract which is to be assumed or rejected as a result of the amendment) and to the Commission. If the counterparty opposes such proposed amendment, the Debtor and the Commission (provided that the Commission's Plan reflects such amendment) will make all reasonable efforts to provide such counterparty a reasonable opportunity under the circumstances to object prior to confirmation of the Plan, and to the extent that such counterparty has the right to vote on the Plan, or becomes entitled to vote on the Plan as a result of the amendment to Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement, to provide such counterparty a reasonable amount of time to cast a Ballot to accept or reject the Plan and indicate its

⁵ A copy of PG&E's Plan Supplement can be obtained through the "Pacific Gas & Electric Company Chapter 11 Case" link available through the website maintained by the Bankruptcy Court at <http://www/canb.uscourts.gov>. PG&E's Plan Supplement is listed under docket number 4579.

preference between this Plan and PG&E's Plan, or to amend its Ballot. The listing of a document on Schedules 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement shall not constitute an admission by the Debtor or the Commission that such document is an executory contract or an unexpired lease or that the Debtor has any liability thereunder. Notwithstanding anything to the contrary, the Debtor waives its right to make amendments pursuant to this Section 6.1 with respect to the assumption of the PG&E-Western Area Power Administration Contract 2948A and related contracts, as described in Exhibit G to PG&E's Disclosure Statement.

6.2 Schedules of Rejected Executory Contracts and Unexpired Leases; Inclusiveness. Each executory contract and unexpired lease listed or to be listed on Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement shall include (i) modifications, amendments, supplements, restatements or other similar agreements made directly or indirectly by any agreement, instrument, or other document that in any manner affects such executory contract or unexpired lease, without regard to whether such agreement, instrument or other document is listed on Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement, and (ii) executory contracts or unexpired leases appurtenant to the premises listed on Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement, including, without limitation, all easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal, powers, uses, usufructs, reciprocal easement agreements or vault, tunnel or bridge agreements, and any other interests in real estate or rights in rem relating to such premises to the extent any of the foregoing are executory contracts or unexpired leases, unless any of the foregoing agreements previously have been assumed or assumed and assigned by the Debtor.

6.3 Approval of Assumption or Rejection of Executory Contracts and Unexpired Leases. Entry of the Confirmation Order shall, subject to and upon the occurrence of the Effective Date, constitute (i) the approval, pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the assumption of the executory contracts and unexpired leases assumed pursuant to Section 6.1 hereof, (ii) the extension of time, pursuant to section 365(d)(4) of the Bankruptcy Code, within which the Debtor may assume or reject the unexpired leases of non-residential property specified in Section 6.1 hereof through the date of entry of the Confirmation Order, and (iii) the approval, pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the rejection of the executory contracts and unexpired leases rejected pursuant to Section 6.1 hereof.

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

6.5 Bar Date for Filing Proofs of Claim Relating to Executory Contracts and Unexpired Leases Rejected Pursuant to, or Omitted from, the Plan. Claims arising out of the rejection of an executory contract or unexpired lease pursuant to Section 6.1 hereof must be properly filed in the Chapter 11 Case and served upon the Debtor no later than thirty (30) days after the later of (i) notice of entry of an order approving the rejection of such executory contract or unexpired lease, (ii) notice of entry of the Confirmation Order, and (iii) notice of an amendment to Schedule 6.1(a)(i) or 6.1(a)(ii) to PG&E's Plan Supplement. All such Claims not filed within such time shall be forever barred from assertion against the Debtor, its estate and its property.

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

6.7 Compensation and Benefit Programs. Except as provided in Section 6.1 hereof, all savings, health care, severance, performance-based cash incentive, retention, employee welfare benefit, life insurance, disability and other similar plans and agreements of the Debtor are treated as executory contracts under the Plan and shall, on the Effective Date, be deemed assumed by the Debtor in accordance with sections 365(a) and 1123(b)(2) of the Bankruptcy Code, and any defaults thereunder shall be cured as provided in Section 6.4 hereof. With respect to the Debtor's Retirement Plan, the Debtor affirms and agrees that it is and will continue to be the contributing sponsor of the Retirement Plan, as defined under 29 U.S.C. § 1301(a)(13) and 29 C.F.R. § 4001.2, or a member of the contributing sponsor's controlled group, as defined under 29 U.S.C. § 1302(a)(14) and 29 C.F.R. § 4001.2. As a contributing sponsor (or member of the controlled group) of the Retirement Plan, the Debtor intends to fund the Retirement Plan in accordance with the minimum funding standards under ERISA, 29 U.S.C. § 1802, pay all required PBGC insurance premiums, 29 U.S.C. § 1307, and comply with all requirements of the Retirement Plan and ERISA. The Retirement Plan is a defined benefit pension plan insured by the Pension Benefit Guaranty Corporation under Title IV of ERISA, 29 U.S.C. §§ 1301-1461. The Retirement Plan is subject to the minimum funding requirements of ERISA, 29 U.S.C. § 1084, and section 412 of the Internal Revenue Code, 26 U.S.C. § 412. No provision of or proceeding within the Debtor's reorganization proceedings, the Plan, nor the Confirmation Order shall in any way be construed as discharging, releasing or relieving the Debtor, the Reorganized Debtor, or any other party in any capacity, from any liability with respect to the Retirement Plan or any other defined benefit pension plan under any law, governmental policy or regulatory provision. PBGC and the Retirement Plan shall not be enjoined or precluded from enforcing liability resulting from any of the provisions of the Plan or the Plan's confirmation.

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

6.9 Settlement and Stanislaus Commitments/Natural Gas.

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

(b) Natural Gas. On the Effective Date, the Reorganized Debtor shall continue to offer the City of Palo Alto gas transmission and storage services on terms and conditions that provide full parity of treatment with those provided by the Reorganized Debtor to its own retail gas distribution functions, including, but not limited to, the opportunity to reserve, in advance of any open-season process, a defined amount of transmission and storage capacity in any amount up to the amount sufficient to meet the City of Palo Alto's projected Abnormal Peak Day (the "APD") requirements, subject to applicable limits on the amount of each such form of capacity. Similarly, on the Effective Date, "vintage rates" for the Redwood Path capacity currently held by the City of Palo Alto (6,148 Dth/day) shall continue to be available to the City of Palo Alto for as long as vintage rates are available to any core customer served by the Reorganized Debtor.

ARTICLE VII

IMPLEMENTATION OF THE PLAN

7.1 Issuance of Securities. On or before the Effective Date, the Reorganized Debtor shall issue and sell, through one or more public or private offerings, new debt securities of and Equity Interests in the Reorganized Debtor, the net proceeds of which, in addition to the Debtor's available Cash, will be sufficient to satisfy in full in Cash all Allowed Claims under the Plan to be paid in Cash. The terms and estimated amounts of the debt securities to be issued under the Plan are described on Exhibit 3 hereto. SUCH TERMS AND ESTIMATED AMOUNTS REMAIN SUBJECT TO CHANGE BASED UPON, AMONG OTHER FACTORS, ACTUAL OR PERCEIVED MARKET CONDITIONS AND RATING AGENCY REQUIREMENTS AT THE TIME OF ISSUANCE, THE AMOUNT OF THE REORGANIZED DEBTOR'S AVAILABLE CASH ON THE EFFECTIVE DATE, AND THE AMOUNT OF ALLOWED CLAIMS. At all times prior to their issuance the Committee shall be given reasonable observation rights in the process of structuring, marketing, pricing and selling the securities. The securities to be issued are described generally below:

(a) Reorganized Debtor New Money Notes. On or before the Effective Date, the Reorganized Debtor shall issue and sell, through one or more private or public offerings, new debt securities in the original aggregate principal amount sufficient to yield net proceeds of approximately \$3.86 billion, the terms of which are set forth on Exhibit 3 (any and all such notes, collectively, the "Reorganized Debtor New Money Notes"), the net proceeds of which shall be used to fund payments to holders of Allowed Claims and Allowed Equity Interests.

(b) New Equity Interests. On or before the Effective Date, the Reorganized Debtor shall issue and sell, through one or more private or public offerings, new Equity Interests in the Reorganized Debtor sufficient to yield net proceeds of approximately \$1.75 billion. The net proceeds of the Reorganized Debtor's issuance and sale of new Equity Interests shall be used to fund payments to holders of Allowed Claims and Allowed Equity Interests.

7.2 Settlement of Litigation. On or before the Effective Date, the Debtor shall dismiss the Rate Recovery Litigation, with prejudice. At such time, the Debtor shall execute and deliver to the Commission all pleadings and release documents required by the Commission in connection with such dismissal, which shall be in form and substance satisfactory to the Commission, specifically releasing any and all claims and Causes of Action that the Debtor has or may have against the State of California and the Commission and their respective present and former commissioners (in their official capacities), officers, employees, advisors, consultants and professionals, that arise from:

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

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

(c) the Commission's Decision Nos. 01-03-082 (TURN Accounting Decision).

7.3 New Tax Sharing Agreement. On or before the Effective Date, or as soon as practicable thereafter, the Reorganized Debtor and the Parent shall have executed and delivered the New Tax Sharing Agreement.

7.4 Corporate Governance.

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

(b) Officers. The officers of the Debtor immediately prior to the Effective Date shall serve as the initial officers of the Reorganized Debtor on and after the Effective Date. Such officers shall serve in accordance with any employment agreement with the Reorganized Debtor and applicable law.

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

7.5 Regulatory Approvals. The Commission shall adopt such decisions or orders as are necessary to implement the provisions of Article VII of this Plan, it being understood that, as of and subject to the occurrence of the Confirmation Date, this Plan and the Confirmation Order shall be irrevocably binding upon the Commission, notwithstanding such future decisions and orders of the Commission. The Debtor shall timely seek any other regulatory approvals from all applicable Governmental Entities that the Debtor believes are necessary to effectuate the transactions specified herein.

7.6 Working Capital Facility. On or before the Effective Date, or as soon as practicable thereafter, the Reorganized Debtor shall obtain and establish a working capital facility (the "Exit Facility") for the purposes of funding operating expenses and seasonal fluctuations in working capital and providing letters of credit, as well as funding distributions to the holders of Allowed Claims, if necessary. The terms of the Exit Facility are set forth on Exhibit 3.

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

ARTICLE VIII

CONFIRMATION AND EFFECTIVENESS OF THE PLAN

8.1 Conditions Precedent to Confirmation. The Plan shall not be confirmed by the Bankruptcy Court unless and until the following conditions shall have been satisfied:

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

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

8.2 Conditions Precedent to Effectiveness. The Plan shall not become effective unless and until the following conditions shall have been satisfied or waived pursuant to Section 8.4 hereof:

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

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

(c) the Reorganized Debtor shall have consummated the sale of the Reorganized Debtor New Money Notes and the new Equity Interests as contemplated under Section 7.1 hereof and the proceeds thereof shall, in addition to the Debtor's available Cash, be sufficient to pay all Allowed Claims to be paid hereunder and to fund the escrows for Disputed Claims;

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

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

(f) the Debtor shall dismiss the Rate Recovery Litigation with prejudice and the Debtor shall have executed and delivered to the Commission all pleadings and release documents required by the Commission in connection with such dismissal, which shall be in form and substance satisfactory to the Commission;

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

(h) the Debtor shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents that are necessary to implement the Plan; and

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

8.3 Effect of Failure of Conditions. In the event that one or more of the conditions specified in Section 8.2 hereof shall not have occurred or been waived on or before January 30, 2003 (or such later date as may be hereafter provided in an amended Section 8.2(a)), (a) the Confirmation Order shall be vacated, (b) no distributions under the Plan shall be made, (c) the Debtor and all holders of Claims and Equity Interests shall be restored to the status quo ante as of the day immediately preceding the Confirmation Date as though the Confirmation Order had never been entered, and (d) the Debtor's obligations with respect to Claims and Equity Interests shall remain unchanged and nothing contained herein shall constitute or be deemed a waiver or release of any Claims or Equity Interests by or against the Debtor or any Person or Governmental Entity or to prejudice in any manner the rights of the Debtor or any Person or Governmental Entity in any further proceedings involving the Debtor; provided, however, that the amounts paid pursuant to Section 4.2(a) hereof on account of Post-Petition

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

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

ARTICLE IX

EFFECT OF CONFIRMATION OF PLAN

9.1 Term of Bankruptcy Injunction or Stays. Unless otherwise provided, all injunctions or stays provided for in the Chapter 11 Case under section 105 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect in accordance with the terms of such injunctions. Unless otherwise provided, the automatic stay provided under section 362 of the Bankruptcy Code shall remain in full force and effect until the Effective Date.

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

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

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

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

9.6 Injunction. In addition to and except as otherwise expressly provided herein, in the Confirmation Order or a separate order of the Bankruptcy Court, all entities who have held, hold or may hold Claims against or Equity Interests in the Debtor, are permanently enjoined, on and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to such Claim or Equity Interest, (b) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against the Reorganized Debtor on account of any such Claim or Equity Interest, (c) creating, perfecting or enforcing any Lien of any kind against the Reorganized Debtor or against the Reorganized Debtor's property or interests in property on account of any such Claim or Equity Interest, (d) asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from the Reorganized Debtor or against the Reorganized Debtor's property or interests in property on account of any such Claim or

Equity Interest, and (e) commencing or continuing in any manner any action or other proceeding of any kind with respect to any claims and Causes of Action which are extinguished, dismissed or released pursuant to the Plan. The injunction shall also enjoin all parties in interest, including, without limitation, all entities who have held, hold or may hold Claims against or Equity Interests in the Debtor, from taking any action in violation of the Confirmation Order. Such injunction shall extend to the successors of the Reorganized Debtor, their properties and interests in property. Except as provided by Sections 11.4, 11.5 and 11.6 hereof, this Section 9.6 shall not enjoin, bar or otherwise impair the commencement or prosecution of direct personal claims against any Person other than the Reorganized Debtor, including claims against the Parent.

ARTICLE X

RETENTION OF JURISDICTION

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

- (a) to hear and determine matters related to the Plan;
- (b) to hear and determine applications for the assumption or rejection of executory contracts or unexpired leases, if any are pending, and the allowance of cure amounts and Claims resulting therefrom;
- (c) to hear and determine any and all adversary proceedings, applications and contested matters;
- (d) to hear and determine any objection to Administrative Expense Claims or Claims;
- (e) to enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified or vacated;
- (f) to issue such orders in aid of execution and consummation of the Plan, to the extent authorized by section 1142 of the Bankruptcy Code;
- (g) to consider any amendments to or modifications of the Plan, to cure any defect or omission, or to reconcile any inconsistency in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order;
- (h) to hear and determine all applications for compensation and reimbursement of expenses of professionals under sections 330, 331 and 503(b) of the Bankruptcy Code;
- (i) to hear and determine disputes arising in connection with the interpretation, implementation or enforcement of the Plan and/or the Confirmation Order;
- (j) to hear and determine proceedings to recover assets of the Debtor and property of the Debtor's estate, wherever located;
- (k) to hear and determine matters concerning state, local and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code;
- (l) to hear and determine matters concerning the escrow(s), if any, established pursuant to Section 5.4(h) hereof;
- (m) to hear any other matter not inconsistent with the Bankruptcy Code; and

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

ARTICLE XI

MISCELLANEOUS PROVISIONS

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

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

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

11.4 Releases by Debtor.

(a) As of the Effective Date, and subject to the release by the Releasees set forth in Section 11.5 below, the Debtor releases all of the Releasees from any and all Causes of Action held by, assertable on behalf of or derivative of the Debtor, in any way relating to the Debtor, the Debtor-in-Possession, the Chapter 11 Case, the Plan, negotiations regarding or concerning the Plan and the ownership, management and operation of the Debtor; provided, however, that the foregoing shall not operate as a waiver of or release from any Causes of Action arising out of any express contractual obligation owing by any former director, officer or employee to the Debtor or any reimbursement obligation of any former director, officer or employee with respect to a loan or advance made by the Debtor to such former director, officer or employee and is not a waiver of or release for any professionals retained in connection with this Chapter 11 Case from claims by their respective clients.

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

11.5 Limited Release by Releasees. In consideration for release of the Releasees in Section 11.4(a) and other valuable consideration, as of the Effective Date, each of the Releasees, at its option, generally releases the Debtor and the Debtor-in-Possession and the Reorganized Debtor, in each case in any capacity, from any and all Causes of Action held by, assertable on behalf of or derivative from such Releasee, in any way relating to the Debtor, the Debtor-in-Possession, the Chapter 11 Case, the Plan, negotiations regarding or concerning the Plan and the ownership, management and operation of the Debtor. The release by the Debtor in Section 11.4(a) hereof shall be provided only to Releasees who execute and deliver to the Debtor a release as provided in this Section 11.5 and in a form acceptable to the Debtor.

11.6 Exculpation. As of and subject to the occurrence of the Confirmation Date, (a) the Commission shall have been deemed to have negotiated the Plan in good faith, (b) the Commission shall be deemed to have solicited acceptances of the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code, including, without limitation section 1125(a) of the Bankruptcy Code, and any applicable non-bankruptcy law, rule or regulation governing the adequacy of disclosure in connection with such solicitation, and (c) the Commission and its individual commissioners in their official capacities, and the Commission's agents, employees, advisors and attorneys shall be deemed to have participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code in connection with the offer and issuance of any securities under the Plan, and therefore, neither the Commission nor its individual commissioners nor any of the Commission's agents, employees, advisors and professionals shall have or incur any liability to any holder of a Claim or Equity Interest or other party in interest for any act or omission in connection with, related to, or arising out of, the Chapter 11 Case, negotiations regarding or concerning the Plan, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for willful misconduct or gross negligence, and, in all respects, the Commission and its individual commissioners, and the Commission's agents, employees, advisors and professionals shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

11.7 Termination of Committee. The appointment of the Committee shall terminate on the Effective Date, subject to continuation for specific purposes by a Final Order of the Bankruptcy Court.

11.8 Fees and Expenses.

(a) Upon the Bankruptcy Court's entry of a Final Order approving any application by the Commission under section 503(b)(3) of the Bankruptcy Code and/or the Commission's legal and financial advisors under section 503(b)(4) of the Bankruptcy Code, the amounts authorized for payment thereunder shall be treated as an Administrative Expense Claim and a Professional Compensation and Reimbursement Claim, respectively, and paid in accordance with the provisions of Sections 2.1 and 2.2 hereof, respectively.

(b) From and after the Confirmation Date, the Reorganized Debtor shall, in the ordinary course of business and without the necessity for any approval by the Bankruptcy Court, pay the reasonable fees and expenses of professional Persons thereafter incurred, including, without limitation, any fees and expenses incurred by the Commission's professionals in connection with the implementation and consummation of the Plan; provided, however, that any dispute regarding the reasonableness of such fees and expenses shall be decided by the Bankruptcy Court.

11.9 Payment of Statutory Fees. All fees payable pursuant to Section 1930 of title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid on or before the Effective Date.

11.10 Amendment or Modification of the Plan.

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

(b) The Commission and the Committee shall negotiate in good faith any and all material amendments or modifications to the Plan or in connection with any proposed waiver concerning any provision of the Plan, including, but not limited to, the waiver of any conditions to confirmation of the Plan or to the Effective Date of the Plan. If the Commission and the Committee do not agree upon any such proposed amendments, modifications or waivers, then the Commission shall only implement such amendments, modifications or waivers pursuant to a Final Order of the Bankruptcy Court obtained by motion of the Commission and after notice and a hearing on not less than ten (10) days' notice to the Debtor, the Committee and the United States Trustee. The provisions of this paragraph shall apply to all terms and conditions hereof, including, but not limited to, Sections 8.1, 8.2, 8.4, 11.10 and 11.12. Notwithstanding the foregoing provisions of this Section 11.10(b), the condition in Section 8.2(g) (investment grade rating) may only be waived pursuant to a Final Order of the Bankruptcy Court obtained by motion of the Commission and after notice and a hearing on not less than ten (10) days' notice to the Debtor, the Committee and the United States Trustee.

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

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

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

11.14 Notices. All notices, requests and demands to or upon the Debtor, the Commission, the Committee or the United States Trustee to be effective shall be in writing and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or,

in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

If to the Debtor:

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

with a copy to:

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

and:

Howard, Rice, Nemerovski, Canady, Falk & Rabkin
A Professional Corporation
Three Embarcadero Center, 7th Floor
San Francisco, California 94111
Attn: James L. Lopes
Telephone: (415) 434-1600
Facsimile: (415) 217-5910

If to the Commission:

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102
Attn: General Counsel
Telephone: (415) 703-2015
Facsimile: (415) 703-2262

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, New York 10019-6064
Attn: Alan W. Kornberg
Telephone: (212) 373-3000
Facsimile: (212) 757-3990

If to the Committee:

Milbank, Tweed, Hadley & McCloy LLP
601 South Figueroa Street, 30th Floor
Los Angeles, California 90017
Attn: Paul S. Aronzon
Telephone: (213) 892-4000
Facsimile: (213) 629-5063

If to the United States Trustee:

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

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

11.16 Withholding and Reporting Requirements. Except as otherwise provided by the Plan, in connection with the consummation of the Plan, the Debtor shall comply with all applicable withholding and reporting requirements imposed by any federal, state, local or foreign taxing authority and all distributions hereunder shall be subject to any such withholding and reporting requirements.

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

(a) The Reorganized Debtor's amended Articles of Incorporation and Bylaws.

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

11.18 Exhibits/Schedules. All exhibits and schedules to the Plan, including the Commission's Plan Supplement, are incorporated into and are a part of the Plan as if set forth in full herein.

11.19 Subrogation Rights. Nothing in the Plan shall affect (a) the subrogation rights of any surety, to the extent applicable or available, which, if available or applicable, shall remain in full force and effect, or (b) the rights of the Debtor to object, pursuant to the Bankruptcy Code, to the existence of such subrogation rights.

DATED: May 17, 2002

CALIFORNIA PUBLIC UTILITIES
COMMISSION

By: /s/ GARY M. COHEN _____

Gary M. Cohen
General Counsel

APPROVED AS TO CONTENT AND FORM:

PAUL, WEISS, RIFKIND, WHARTON &
GARRISON

By: /s/ ALAN W. KORNBERG _____

Counsel for the California Public Utilities
Commission

PLAN EXHIBIT 1

Interest Rates for Allowed Claims

<u>Contract Type</u>	<u>Class</u>	<u>Interest Rate/Calculation Method¹</u>	<u>Compounding Interval Before First Payment</u>	<u>Interest Commencement Date</u>	<u>Payment Dates After First Payment</u>
A. Contract²—Other than PC Bonds or First and Refunding Mortgage Bonds					
Floating Rate Notes ³	5	Base Interest Rate: 7.583% ⁴	Quarterly	Last Date Interest Paid	Quarterly
Revolving Line of Credit ³	5	Base Interest Rate: 8.000%	Quarterly	Last Date Interest Paid	Quarterly
Medium Term Notes ³	5	Interest Rate: See Exhibit D of Disclosure Statement—“Security Description”	Semiannually	Last Date Interest Paid	Quarterly
Senior Notes ³	5	Base Interest Rate: 9.625%	Semiannually	Last Date Interest Paid	Quarterly
DWR	5	Per Contract	N/A	N/A	DWR Claims being offset against amounts due Debtor
San Joaquin Valley ³	5	Per Contract	Semiannually	Last Date Interest Paid	Quarterly
L/C Banks ³	4e	Per Contract	N/A	Last Date Interest Paid	Quarterly
Prior Bonds ³	4f	Per Contract	N/A	Last Date Interest Paid	Quarterly
MBIA Reimbursement ³	4c	Per Contract	N/A	Date Funds First disbursed Under PC Bond Insurance Policy for Payment of Interest on MBIA Insured PC Bonds	Quarterly
QUIDs ³	11	Per Contract	Quarterly	Last Date Interest Paid	Quarterly
B. Contract²—First and Refunding Mortgage Bonds					
First and Refunding—	3	Per Contract	Semiannually	Last Date Interest Paid	Per Contract
C. Contract²—PC Bonds					
Mortgage Backed	4a	Per Contract	Per Contract Paid	Last Date Interest	Per Contract
MBIA Backed ⁵	4b	Per Contract	Per Contract	Last Date Interest Paid	Per Contract
L/C Backed ⁵	4d	Per Contract	Per Contract	Last Date Interest Paid	Per Contract
Treasury ³	4g	Per Contract	Per Contract	Last Date Interest Paid	Quarterly
D. Non-Contract²—OCC Contract Specified					
Commercial Paper ³	5	Base Interest Rate: 7.466% ⁵	Quarterly	Last Date Interest Paid	Quarterly
ISO/Generator ⁷	6	Determined pursuant to method set forth in Section 35.19a of the FERC regulations	Annually	To be Determined	Quarterly

Contract Type	Class	Interest Rate/Calculation Method¹	Compounding Interval Before First Payment	Interest Commencement Date	Payment Dates After First Payment
ISDA Claims ⁷	5	Floating LIBOR + 2%	Annually	Petition Date	Quarterly
E. Non-Contract					
Priority Tax Claims		Statutory	Statutory	Statutory	Statutory
ESP ⁷	7		Annually	Petition Date	Quarterly
Intercompany ⁷	5	Lowest Default Rate Under Applicable Statute, Indenture or Instrument ⁹	Annually	Petition Date	Quarterly
Gas Procurement ⁷	5	Lowest Default Rate Under Applicable Statute, Indenture or Instrument ⁹	Annually	Petition Date	Quarterly
Other Trade Payables ⁷	5	Lowest Default Rate Under Applicable Statute, Indenture or Instrument ⁹	Annually	Petition Date	Quarterly
Convenience Class ^{7,10}	10	Lowest Default Rate Under Applicable Statute, Indenture or Instrument ⁹	Annually	Petition Date	Quarterly
Environmental, Fire Suppression, Pending Litigation, Tort and FERC License Claims	8	As Applicable Under Non-Bankruptcy Law			
Workers' Compensation	12	As Applicable Under Non-Bankruptcy Law			

¹ See Exhibit D of the Disclosure Statement for specific interest rates on certain instruments.

² "Contract" refers to contractual provisions regarding interest calculations.

³ The first payment will be made ten days after the date that PG&E's Disclosure Statement is approved for the period ended on February 28, 2001.

⁴ Calculated based on actual days elapsed over 360 days, with an implied yield of 7.690%.

⁵ Payments have been made when due in respect of these obligations by the Debtor, MBIA or the Letter of Credit Issuing Banks, as applicable.

⁶ Paid by Bond Trustee with payments on Mortgage Bonds.

⁷ The first payment will be made on July 30, 2002 for the period ended on June 30, 2002.

⁸ Determined on the Petition Date and each anniversary prior to the date of first payment and quarterly thereafter.

⁹ If no such Statute, indenture or instrument applies, or if the applicable Statute, indenture or instrument does not specify a non-default rate of interest, Post-Petition Interest shall be calculated and paid at the Federal Judgment Rate.

¹⁰ Certain claims of \$5,000 or less will be paid in full on or before July 31, 2002.

PLAN EXHIBIT 2

Schedule of Letter of Credit Issuing Banks

<u>Series</u>	<u>Original Principal Amount</u>	<u>Letter of Credit Issuing Bank</u>	<u>Stated Amount of Letter of Credit</u>	<u>Letter of Credit Expiration Date</u>
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$200,000,000 1996 Series C (the "96C Bonds")	\$200,000,000	Bank of America, N.A.	\$202,191,781	5/23/02
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$165,000,000 1996 Series E (the "96E Bonds")	\$165,000,000	Morgan Guaranty Trust Company of New York	\$166,808,220	5/23/03
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) \$100,000,000 1996 Series F (the "96F Bonds")	\$100,000,000	BNP Paribas	\$101,095,891	5/23/03
California Pollution Control Financing Authority, Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 1997 Series B (the "97B Bonds")	\$148,550,000	Deutsche Bank AG	\$150,177,946	9/16/02

PLAN EXHIBIT 3

Description of Debt Instruments

I. New Notes

Issuer	Reorganized Debtor.
Amount	Estimated to aggregate \$3,860,000
Credit Rating	At least BBB- by S&P and Baa3 by Moody's.
Coupon Rate	The coupon rates are expected to reflect market clearing yields for a primary offering for a comparable issue of this maturity size and credit rating, among other factors, at the time of issuance of issuers in the same industry.
Maturity	To be determined.
Amortization	To be determined—the New Notes will either amortize over an average life of not less than years or will provide for principal payment at maturity.
Denominations	\$1,000
Interest Payment Date	Semi-annually.
Ranking	The New Notes will be Unsecured.
Optional Redemption	The New Notes are expected to be redeemable at the option of the issuer at any time in whole or in part, at a price equal to the aggregate of the principal amount to be redeemed, accrued and unpaid interest, and a “make whole premium.” The amount of the “make whole premium” is expected to reflect market conditions at the time of issuance and be determined by negotiation between the issuer and the underwriter(s). The actual calculation in the event redemption is effected is expected to be made by an independent investment banking institution of national standing.
Covenants	The indenture (and any supplemental indentures) under which the New Notes will be issued is expected to include covenants in respect of actions the issuer must take or is precluded from taking similar to those included in indentures governing long term notes of a comparable credit rating at the time of the issuance of the New Notes, including, but not limited to, limitations on liens.
Events of Default	<ul style="list-style-type: none">• Nonpayment of interest when due after thirty (30) days of grace period.• Nonpayment of principal or premium at maturity.• Breach of covenant or warranty in the indenture and continuation of such breach for ninety (90) days after notice given to the company.

- Occurrence of event or condition which results in acceleration of a bond, debenture, note or other evidence of money borrowed or the company does not honor its guarantee of any such debt guaranteed by the company in the event of such acceleration with an aggregate outstanding principal amount of more than \$50,000,000, and such indebtedness is not discharged or acceleration is not rescinded within thirty (30) days after notice to the issuing company.
- An involuntary bankruptcy petition is filed against the company and such petition is not dismissed within ninety (90) days of filing or entry of decree or order adjudging the company or any significant subsidiary to be insolvent or appointing a custodian, receiver, etc., which decree or order remains in effect for ninety (90) days.
- Commencing a voluntary case under federal or state bankruptcy or insolvency law or other similar law; making an assignment for the benefit of creditors; admission in writing of inability to pay debts when due.

Amendments

- Ministerial amendments may be adopted without noteholder consent.
- Modification and amendments may be made by the issuer and the trustee with the consent of a majority in principal amount of the New Notes.
- Amendments to certain specified economic terms of the New Notes (e.g., maturity date, percentage of outstanding notes required to approve certain matters) may be adopted only with the consent of each noteholder.

Registration/Exemption

Initial issuance of New Notes will be registered under the Securities Act.

Listing

None—traded in over-the-counter market.

Initial Trading Procedures

None.

II. New Working Capital Facility Borrower

Reorganized Debtor.

Amount	<u>Facility</u> a) Revolver b) Capital Expenditure Sub-Facility c) Letters of Credit	<u>Total Line</u> \$1,885,000,000
Sublimits	The sublimit for Letters of Credit will be \$955,000,000. The sublimit for Working Capital will be \$400,000,000 The sublimit for Capital Expenditures will be \$500,000,000.	
Credit Rating	At least BBB- by S&P and Baa3 by Moody's.	
Interest Rate	TBD	
Interest Frequency	TBD	
Default Interest Rate	TBD	
Maturity	<u>Facility</u> a) Revolver b) Letters of Credit	<u>Maturity</u> January 31, 2008 January 31, 2008
Ranking	Secured by inventory and receivables.	
Structuring Fee	TBD	
Unused Commitment Fee	TBD	
Excess Cash Flow Sweep	TBD	
Covenants	TBD	
Events of Default	TBD	
Collateral Terms	TBD	

PLAN EXHIBIT 4

TAX SHARING AGREEMENT

THIS TAX SHARING AGREEMENT (the "Agreement"), dated as of _____, 2002, is entered into between PG&E Corporation, a California corporation ("Parent"), and Pacific Gas and Electric Company, a California corporation ("Subsidiary").

Parent is the common parent corporation of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986, as amended (the "Code"), that has elected to file consolidated federal income tax returns, and Subsidiary is a member of such group.

Parent and Subsidiary desire to set forth in this Agreement their agreement as to certain matters relating to the inclusion of the Subsidiary Consolidated Group (as defined below) in the Parent Consolidated Group (as defined below), including the allocation of tax liabilities for years in which Subsidiary is so included, and certain other matters relating to taxes.

The parties agree as follows:

1. DEFINITIONS.

"Adjustment" shall have the meaning set forth in Section 8.

"Agreement Year" shall mean any taxable year beginning on or after January 1, 2002 during which the Subsidiary Consolidated Group is included in the Parent Consolidated Group.

"Balance Payment" shall have the meaning set forth in Section 4.

"Code" shall have the meaning set forth above.

"Estimated Tax Payments" shall have the meaning set forth in Section 4.

"Final Determination" shall mean the final resolution of any tax matter, including, but not limited to, a closing agreement with the IRS or the relevant state, local or foreign taxing authority, a claim for refund which has been allowed, a deficiency notice with respect to which the period for filing a petition with the Tax Court or the relevant state, local or foreign tribunal has expired, or a decision of competent jurisdiction that is not subject to appeal or as to which the time for appeal has expired.

"IRS" shall mean the Internal Revenue Service.

"Parent" shall have the meaning set forth above.

"Parent Consolidated Group" shall mean the affiliated group of corporations (including any predecessors and successors thereto) within the meaning of Section 1504(a) of the Code electing to file consolidated federal income tax returns and of which Parent is the common parent.

"Parent Consolidated Return" shall have the meaning set forth in Section 2.

"Post-Consolidation Year" shall have the meaning set forth in Section 6 of this Agreement.

"Pro Forma Subsidiary Attribute" shall have the meaning set forth in Section 5.

"Pro Forma Subsidiary Return" shall have the meaning set forth in Section 3.

"Records" shall have the meaning set forth in Section 8.

"Regulations" shall mean the Treasury regulations promulgated under the Code.

"Total Periodic Payments" shall have the meaning set forth in Section 4.

"Subsidiary" shall have the meaning set forth above.

"Subsidiary Consolidated Group" shall mean the affiliated group of corporations (including any predecessors and successors thereto) within the meaning of Section 1504(a) of the Code, of which Subsidiary would be the common parent if it were not included in the Parent Consolidated Group.

“Subsidiary Return Items” shall have the meaning set forth in Section 8.

“Subsidiary Tax Package” shall have the meaning set forth in Section 7.

2. FILING OF CONSOLIDATED RETURNS AND PAYMENT OF CONSOLIDATED TAX LIABILITY.

For all taxable years in which Parent files consolidated federal income tax returns (any such return of the Parent Consolidated Group for any taxable year, a “Parent Consolidated Return”) and is entitled to include the Subsidiary Consolidated Group in such returns, Parent shall include the Subsidiary Consolidated Group in the consolidated federal income tax returns that it files as the common parent corporation of the Parent Consolidated Group. Parent, Subsidiary and the other members of the Parent Consolidated Group shall file any and all consents, elections or other documents and take any other actions necessary or appropriate to effect the filing of such federal income tax returns. For all taxable years in which the Subsidiary Consolidated Group is included in the Parent Consolidated Group, Parent shall pay the entire federal income tax liability of the Parent Consolidated Group and shall indemnify and hold harmless Subsidiary and each member of the Subsidiary Consolidated Group against any such liability; provided, however, that Subsidiary shall make payments to Parent or receive payments from Parent as provided in this Agreement for any Agreement Year.

3. PRO FORMA SUBSIDIARY RETURN.

For each Agreement Year, Parent shall prepare a pro forma federal income tax return for the Subsidiary Consolidated Group (a “Pro Forma Subsidiary Return”). Except as otherwise provided in this Agreement, the Pro Forma Subsidiary Return for each Agreement Year shall be prepared as if Subsidiary filed a consolidated federal income tax return on behalf of the Subsidiary Consolidated Group for such taxable period. The Pro Forma Subsidiary Return shall reflect any carryovers of net operating losses, net capital losses, excess tax credits, or other tax attributes from prior Pro Forma Subsidiary Returns (excluding those attributes that are carried back pursuant to Section 5) that could have been utilized by the Subsidiary Consolidated Group if the Subsidiary Consolidated Group had never been included in the Parent Consolidated Group and all Pro Forma Subsidiary Returns had been filed as actual returns. The Pro Forma Subsidiary Return shall be prepared in a manner that reflects all elections, positions and methods used in the Parent Consolidated Return that must be applied on a consolidated basis and otherwise shall be prepared in a manner consistent with the Parent Consolidated Return. The provisions of the Code that require consolidated computations, such as Sections 861, 1201-1212 and 1231, shall be applied separately to the Subsidiary Consolidated Group as if the Subsidiary Consolidated Group and the Parent Consolidated Group (excluding the members of the Subsidiary Consolidated Group) were separate affiliated groups, except that the Pro Forma Subsidiary Return prepared for the last taxable year, or portion thereof, during which the Subsidiary Consolidated Group is included in the Parent Consolidated Return shall also include any gains or losses of the members of the Subsidiary Consolidated Group on transactions within the Subsidiary Consolidated Group that must be taken into account pursuant to Section 1.1502-13 of the Regulations and reflected on the Parent Consolidated Return when the Subsidiary Consolidated Group ceases to be included in the Parent Consolidated Return. For each Agreement Year, Section 1.1502-13 of the Regulations shall be applied as if the Subsidiary Consolidated Group were not a member of the Parent Consolidated Group. For purposes of the Agreement, all determinations made as if the Subsidiary Consolidated Group had never been included in the Parent Consolidated Group and as if all Pro Forma Subsidiary Returns were actual returns shall reflect any actual short taxable years resulting from the Subsidiary Consolidated Group joining or leaving the Parent Consolidated Group.

4. TAX PAYMENTS.

(a) Estimated Income Tax Payments. For each Agreement Year, Subsidiary shall make periodic payments (“Estimated Income Tax Payments”) to Parent in such amounts as shall be

equal to the estimated tax payments that would be payable by the Subsidiary Consolidated Group if it were not included in the Parent Consolidated Group, no later than the dates on which such estimated tax payments would be due from the Subsidiary Consolidated Group if it were not included in the Parent Consolidated Group.

(b) Balance Payment. For each Agreement Year, Subsidiary shall pay to Parent an amount equal to the tax payment that would be payable by the Subsidiary Consolidated Group if it were not included in the Parent Consolidated Group, no later than March 15 of the following year (the “Balance Payment”).

(c) Payments based on Pro Forma Subsidiary Return. For each Agreement Year, Subsidiary shall pay to Parent, within 10 days after the filing of the Parent Consolidated Return for such Agreement Year, an amount equal to the sum of (i) the federal income tax liability shown on the corresponding Pro Forma Subsidiary Return prepared for such Agreement Year and (ii) the additions to tax, if any, under Section 6655 of the Code that would have been imposed on the Subsidiary Consolidated Group (treating the amount due to Parent under (i) above as its federal income tax liability and treating any Estimated Tax Payments to Parent pursuant to clause (a) as estimated payments under Section 6655 of the Code) and which result from the inaccuracy of any information provided by Subsidiary to Parent pursuant to Section 7 hereof or from the failure of Subsidiary to provide any requested information, reduced by (iii) the sum for such Agreement Year of the amount of the Estimated Tax Payments and the Balance Payment (collectively, the “Total Periodic Payments”), plus (iv) any interest and additions to tax (other than under Section 6655 of the Code) that would be due under the Code if the Total Periodic Payments were actual payments of tax. If the Total Periodic Payments to Parent for any Agreement Year exceed the amount of Subsidiary’s liability for such Agreement Year under the preceding sentence, Parent shall pay to Subsidiary an amount equal to such excess within 10 days after filing the Parent Consolidated Return for such Agreement Year. For purposes of this Agreement, the term “federal income tax liability” includes the tax imposed by Sections 11, 55 and 59A of the Code, or any successor provisions to such Sections. Parent shall notify Subsidiary of any amounts due from Subsidiary to Parent pursuant to this Section 4 at least 5 business days prior to the date such payments are due, and such payments shall not be considered due until the later of the due date described above or the fifth day after Parent gives such notice.

5. LOSSES; REFUNDS.

If a Pro Forma Subsidiary Return for any Agreement Year reflects a net operating loss, net capital loss, excess tax credit or other tax attribute (a “Pro Forma Subsidiary Attribute”), then, within 10 days after filing the relevant Parent Consolidated Return for such Agreement Year, Parent shall pay to Subsidiary an amount equal to the refund that the Subsidiary Consolidated Group would have received as a result of the carryback of such Pro Forma Subsidiary Attribute to a Pro Forma Subsidiary Return for any prior Agreement Year or Years, assuming that all Pro Forma Subsidiary Returns had been filed as actual returns and that the Subsidiary Consolidated Group had filed returns as a separate affiliated group for all prior taxable years. All calculations of deemed refunds pursuant to this Section 5 shall include interest computed as if the Subsidiary Consolidated Group had filed a claim for refund or an application for a tentative carryback adjustment pursuant to Section 6411(a) of the Code on the date on which the relevant Parent Consolidated Return is filed.

6. PAYMENTS FOR TAXABLE YEARS AFTER DECONSOLIDATION.

(a) Payments By Subsidiary To Parent. If for any taxable year after the Subsidiary Consolidated Group ceases to be included in the Parent Consolidated Group (a “Post-Consolidation Year”), (i) the federal income tax liability of the Subsidiary Consolidated Group is less than (ii) the federal income tax liability that would have been imposed with respect to the same period if the Subsidiary Consolidated Group had not been included in the Parent Consolidated Group for any Agreement

Year and all Pro Forma Subsidiary Returns had been actual returns for such years, then Subsidiary shall pay to Parent an amount equal to the excess of the amount specified in clause (ii) over the amount specified in clause (i) within 10 days after the filing of the Subsidiary Post-Consolidation Year return.

(b) Payments By Parent To Subsidiary. If for any Post-Consolidation Year, (i) the federal income tax liability of the Subsidiary Consolidated Group is greater than (ii) the federal income tax liability that would have been imposed with respect to the same period if the Subsidiary Consolidated Group had not been included in the Parent Consolidated Group for any Agreement Year and all Pro Forma Subsidiary Returns had been actual returns for such years, then Parent shall pay to Subsidiary an amount equal to the excess of the amount specified in clause (i) over the amount specified in clause (ii) within 10 days after notification by Subsidiary to Parent of the filing of the Subsidiary Post-Consolidation Year return.

(c) Documentation. Prior to the payment of any amounts due pursuant to this Section 6, the parties shall exchange such information and documentation as is reasonably satisfactory to each of them in order to substantiate the amounts due pursuant to this Section 6. Any disputes as to such amounts and documentation that cannot be resolved prior to the date on which a payment is due shall be referred to an independent accounting firm whose fees shall be paid one-half by Subsidiary and one-half by Parent.

(d) No Post-Consolidation Year Carrybacks. If the Subsidiary Consolidated Group federal income tax return with respect to a Post-Consolidation Year reflects a net operating loss, net capital loss, excess tax credits or any other tax attribute, such attribute shall not be carried back to a Parent Consolidated Return without the express written consent of Parent, and (unless such consent is given) Subsidiary shall make any available elections or filings that are necessary or desirable to avoid such carrybacks.

7. PREPARATION OF TAX PACKAGE AND OTHER FINANCIAL REPORTING INFORMATION.

Subsidiary shall provide to Parent, in a format determined by Parent, all information requested by Parent as necessary to prepare the Parent Consolidated Return and the Pro Forma Subsidiary Return (the “Subsidiary Tax Package”). The Subsidiary Tax Package with respect to any taxable year shall be provided to Parent on a basis consistent with practices of the Parent Consolidated Group no later than April 1 of the following year. Subsidiary shall also provide to Parent information required to determine the Total Periodic Payments, current federal taxable income, current and deferred tax liabilities, tax reserve items and any additional current or prior information required by Parent on a timely basis consistent with practices of the Parent Consolidated Group.

8. RETURNS, AUDITS, REFUNDS, AMENDED RETURNS, LITIGATION, ADJUSTMENTS AND RULINGS.

(a) Returns. Parent shall have exclusive and sole responsibility for the preparation and filing of the Parent Consolidated Returns (including requests for extensions) and any other returns, amended returns and other documents or statements required to be filed with the IRS in connection with the determination of the federal income tax liability of the Parent Consolidated Group.

(b) Audits; Refund Claims. Parent will have exclusive and sole responsibility and control with respect to the conduct of IRS examinations of the returns filed by the Parent Consolidated Group and any refund claims with respect to such returns, including without limitation the right to select counsel, the right to determine the court or other body in which any contest shall be brought, the right to determine whether to contest a proposed deficiency or to pay a tax and sue for a refund and the right to determine whether and how to appeal any adverse determination. Subsidiary shall

assist and cooperate with Parent during the course of any such proceeding. Parent shall give Subsidiary notice of and consult with Subsidiary with respect to any issues relating to items of income, gain, loss, deduction or credit of Subsidiary (any such items, “Subsidiary Return Items”). Parent shall not settle or otherwise compromise any Subsidiary Return Item that would result in additional liability for Subsidiary under this Agreement without the written consent of Subsidiary, which consent shall not be unreasonably withheld. If Subsidiary does not respond to Parent’s request for consent within 30 days, Subsidiary shall be deemed to have consented.

(c) Litigation. If the federal income tax liability of the Parent Consolidated Group becomes the subject of litigation in any court, the conduct of the litigation shall be controlled exclusively by Parent. Subsidiary shall assist and cooperate with Parent during the course of litigation, and Parent shall consult with Subsidiary regarding any issues relating to Subsidiary Return Items.

(d) Expenses. Subsidiary shall reimburse Parent for all reasonable out-of-pocket expenses (including, without limitation, legal, consulting and accounting fees) in the course of proceedings described in paragraphs (b) and (c) of this Section 8, to the extent such expenses are reasonably attributable to Subsidiary Return Items for any Agreement Year.

(e) Recalculation Of Payments To Reflect Adjustments. To the extent that there is a Final Determination with respect to a Parent Consolidated Return that results in a change in an item relating to such return (an “Adjustment”) that affects the treatment of a Subsidiary Return Item for an Agreement Year, a corresponding adjustment shall be made to the corresponding Pro Forma Subsidiary Return. All calculations of payments made pursuant to Sections 4, 5 and 6 of this Agreement shall be recomputed to reflect the effect of any Adjustments on the relevant Pro Forma Subsidiary Return. Within 10 days after any such Adjustment, Subsidiary or Parent, as appropriate, shall make a payment to the other party reflecting such Adjustment, plus interest pursuant to Section 9 of the Agreement, calculated as if payments by and to Subsidiary pursuant to Sections 4, 5 and 6 of this Agreement and this Section 8 were payments and refunds of federal income taxes. Subsidiary shall further pay to Parent the amount of any penalties or additions to tax incurred by the Parent Consolidated Group as a result of an adjustment to any Subsidiary Return Item for an Agreement Year.

(f) Rulings. Subsidiary shall assist and cooperate with Parent and take all actions requested by Parent in connection with any ruling requests submitted by Parent to the IRS.

(g) Applicability With Respect To All Consolidated Returns. The provisions of Sections 8(a), (b) and (c) above shall apply to Parent Consolidated Returns and Subsidiary Return Items for all taxable years in which Subsidiary is includable in the Parent Consolidated Group.

(h) Document Retention, Access To Records and Use Of Personnel. Until the expiration of the relevant statute of limitations (including extensions), Subsidiary shall (i) retain records, documents, accounting data, computer data and other information (collectively, the “Records”) necessary for the preparation, filing, review, audit or defense of all tax returns relevant to an obligation, right or liability of either party under the Agreement; and (ii) give Parent reasonable access to such Records and to its personnel (insuring their cooperation) and premises to the extent relevant to an obligation, right or liability of either party under the Agreement. Prior to disposing of any such Records, Subsidiary shall notify Parent in writing of such intention and afford Parent the opportunity to take possession or make copies of such Records at its discretion.

9. INTEREST.

Interest required to be paid by or to Subsidiary pursuant to the Agreement shall, unless otherwise specified, be computed at the rate and in the manner provided in the Code for interest on underpayments and overpayments, respectively, of federal income tax for the relevant period. Any payments required pursuant to the Agreement which are not made within the time period specified in the Agreement shall bear interest at a rate equal to the rate provided in the Code for interest on underpayments of tax.

10. FOREIGN, STATE AND LOCAL INCOME TAXES.

(a) In the case of foreign, state or local taxes based on or measured by the net income of the Parent Consolidated Group, or any members of the Parent Consolidated Group (other than solely with respect to the Subsidiary Consolidated Group or solely with respect to members of the Parent Consolidated Group other than members of the Subsidiary Consolidated Group) on a combined, consolidated or unitary basis, the provisions of this Agreement shall apply with equal force to such foreign, state or local tax for each Agreement Year, whether or not the Subsidiary Consolidated Group is included in the Parent Consolidated Group for federal income tax purposes; provided, however, that interest pursuant to the first sentence of Section 9 of this Agreement shall be computed at the rate and in the manner provided under such foreign, state or local law for interest on underpayments and overpayments of such tax for the relevant period, and references to provisions of the Code throughout the Agreement shall be deemed to be references to analogous provisions of foreign, state and local law.

(b) For any Agreement Year, Parent shall have the sole and exclusive control of (a) the determination of whether a combined, consolidated or unitary tax return should be filed for any foreign, state or local tax purpose and (b) all foreign, state or local income tax audits and litigation with respect to the Subsidiary Consolidated Group to the same extent as provided in this Agreement for federal income tax matters (including the right in its sole discretion to have Subsidiary pay any disputed taxes and sue for a refund in the forum of Parent's choice). Subsidiary shall reimburse Parent for all reasonable out-of-pocket expenses (including, without limitation, legal, consulting and accounting fees) in the course of proceedings described in the preceding sentence, to the extent such expenses are reasonably attributable to the Subsidiary Consolidated Group.

(c) Parent will provide notice of and consult with Subsidiary with respect to any issue relating to such audits and litigation, and Subsidiary will provide to Parent any information necessary to conduct such audits and litigation. Parent shall not settle or otherwise compromise any audits or litigation that would result in additional liability for Subsidiary under this Section 10 without the written consent of Subsidiary, which consent shall not be unreasonably withheld. If Subsidiary does not respond to Parent's request for consent within 30 days, Subsidiary shall be deemed to have consented.

11. SUCCESSORS AND ACCESS TO INFORMATION.

The Agreement shall be binding upon and inure to the benefit of any successor to any of the parties, by merger, acquisition of assets or otherwise, to the same extent as if the successor had been an original party to the Agreement, and in such event, all references in this Agreement to a party shall refer instead to the successor of such party. If for any taxable year Subsidiary is no longer included in the Parent Consolidated Group, Parent and Subsidiary agree to provide to the other party any information reasonably required to complete tax returns for taxable periods beginning after Subsidiary is no longer included in a Parent Consolidated Return, and each of Parent and Subsidiary will cooperate with respect to any audits or litigation relating to any Parent Consolidated Return.

12. GOVERNING LAW.

The Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts entered into and to be fully performed within the State of California.

13. HEADINGS.

The headings in the Agreement are for convenience only and shall not be deemed for any purpose to constitute a part or to affect the interpretation of the Agreement.

14. SECTION REFERENCES.

References to Sections shall, unless otherwise specified, be references to Sections of this Agreement.

15. COUNTERPARTS.

The Agreement may be executed simultaneously in two or more counterparts, each of which will be deemed an original, and it shall not be necessary in making proof of the Agreement to produce or account for more than one counterpart.

16. SEVERABILITY.

If any provision of the Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties to the maximum extent practicable. In any event, all other provisions of the Agreement shall be deemed valid, binding, and enforceable to their full extent.

17. TERMINATION.

The Agreement shall remain in force and be binding so long as the applicable period of assessments (including extensions) remains unexpired for any taxes contemplated by the Agreement; provided, however, that neither Parent nor Subsidiary shall have any liability to the other party with respect to tax liabilities for any taxable year in which Subsidiary is not included in the Parent Consolidated Return for such year, except as provided in Sections 5 and 10.

18. SUCCESSOR PROVISIONS.

Any reference herein to any provisions of the Code or Treasury Regulations shall be deemed to include any amendments or successor provisions thereto, as appropriate.

19. COMPLIANCE BY SUBSIDIARIES.

Parent and Subsidiary each agrees to cause all members of the Parent Consolidated Group and the Subsidiary Consolidated Group (including predecessors and successors to such members) to comply with the terms of this Agreement.

IN WITNESS WHEREOF, each of the parties to this Agreement has caused this Agreement to be executed by its duly authorized officer on this _____, 2002.

PG&E CORPORATION

By: _____
Name:
Title:

PACIFIC GAS AND ELECTRIC COMPANY

By: _____
Name:
Title: