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STATE OF CALIFORNIA

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298

DOCKETED  
USNRC

GRAY DAVIS, Governor



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OFFICE OF THE SECRETARY  
RULEMAKINGS AND  
ADJUDICATIONS STAFF

February 20, 2002

Secretary of the Commission  
U.S. Nuclear Regulatory Commission  
Washington, D.C. 20555-0001  
Attention: Rulemakings and Adjudication Staff

Re: **In the Matter of Pacific Gas and Electric Company Application for License Transfers and Conforming Administrative License Amendments for Diablo Canyon Power Plant, Units 1 and 2, Docket Nos. 50-275, 50-323**

To Whom It May Concern:

Enclosed for filing in the above-docketed case, please find an electronic version of a document entitled **"REPLY OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION ("CPUC") TO THE ANSWER OF PACIFIC GAS & ELECTRIC COMPANY TO THE CPUC'S PETITION FOR LEAVE TO INTERVENE, MOTION TO DISMISS APPLICATION, ETC."** ("CPUC Reply").

The original, signed version of this filing, plus an additional hard copy is being sent to you via Federal Express this afternoon. Thank you for your cooperation in this matter.

Sincerely,

A handwritten signature in cursive script, reading 'Laurence G. Chaset'.

Laurence G. Chaset  
Staff Counsel

Enclosure

Template= SECY-037

SECY-02

**UNITED STATES OF AMERICA  
BEFORE THE  
NUCLEAR REGULATORY COMMISSION**

In the Matter of  
Pacific Gas and Electric Company  
Application for License Transfers and  
Conforming Administrative License  
Amendments for Diablo Canyon Power  
Plant, Units 1 and 2

Docket Nos. 50-275, 50-323

**REPLY OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION ("CPUC")  
TO THE ANSWER OF PACIFIC GAS & ELECTRIC COMPANY TO THE  
CPUC'S PETITION FOR LEAVE TO INTERVENE, MOTION TO DISMISS  
APPLICATION, ETC.**

Pursuant to 10 CFR §§2.1307(b), the Public Utilities Commission of the State of California ("CPUC"), hereby replies to the Answer of Pacific Gas and Electric Company to California Public Utilities Commission for Leave to Intervene, and Motion to Dismiss Application, or in the Alternative, Request for Stay of Proceedings, and request for Subpart G Hearing Due to Special Circumstances ("PG&E Answer"), that was filed in this matter on February 15, 2002. The PG&E Answer purports to show why the CPUC's Motion to Dismiss should be denied. However, PG&E's Answer mischaracterizes the circumstances that PG&E faces in its Bankruptcy Court proceeding, and sets forth a series of meretricious arguments that the Nuclear Regulatory Commission ("Commission") should simply ignore.

Unfortunately, the undersigned received the PG&E Answer only yesterday, after a 3-day weekend, and the very short five-day time frame that 10 CFR §§2.1307(b) allows for the filing of this Reply makes it physically impossible to rebut each of PG&E's arguments in detail. Accordingly, this Reply will point out the fundamental flaws of PG&E's arguments in summary, bullet point, fashion. With the Commission's leave, the CPUC would be more than glad to expand upon the summary analysis set forth herein and to explain in greater detail why the arguments set forth in the PG&E Answer are misbegotten and wholly erroneous. However, the key reasons why this is so, and why the Commission should ignore the arguments set forth in PG&E's Answer, are as follows:

1. In the PG&E Answer, PG&E repeatedly argues that the CPUC has not identified issues relevant to the findings the Commission must make on the license transfer application. However, contrary to PG&E's assertions, the CPUC's arguments are directed to the precise issues that the NRC must consider for license transfers under 10 C.F.R. § 50.80, namely, assurances of the transferee's financial qualifications to operate DCP, the transferee's ability to decommission the facility and the ability of the transferee to assure the health, safety and general welfare of the ratepayers it seeks to serve.

2. At page 10 of the PG&E Answer, PG&E states that it is seeking only approval of the proposed license transfer, conditioned upon the confirmation by the Bankruptcy Court of the relevant elements of PG&E's proposed Bankruptcy Reorganization Plan ("Plan"). This is a deceptive and misleading argument. The Commission should deny even a conditional approval of the proposed license transfer,

because even such a limited, conditional approval would lend unnecessary and inappropriate weight to PG&E's efforts, through its Plan, to bilk PG&E's ratepayers out of the value of between \$3.85 to \$5.15 billion (with a B!) of PG&E assets.<sup>1</sup> Moreover, as the CPUC pointed out in its Renewed Motion to Dismiss Application that was filed in this matter on February 11, 2002, the Bankruptcy Court, in its Preemption Decision of February 7, 2002, has determined that PG&E's Plan is not lawful and may not move forward as it is currently designed. Given that the current version of PG&E's Plan is effectively dead, it would be extremely bad public policy, and it would be counterproductive, for this Commission to unfairly and unreasonably throw its weight behind PG&E's unlawful Plan by granting PG&E's requested license transfer, even on a conditional basis. For the Commission to do so would undermine the ability of the Bankruptcy Court to exercise its reasoned independent judgment on how best to move PG&E out of bankruptcy.

3. The heart of the argument in PG&E's Answer is that its Plan somehow continues to be "viable" before the Bankruptcy Court. *See*, PG&E's Answer, at 11-13. However, whether this Plan has any real life left to it, or not, is a matter that the Bankruptcy Court will evaluate over the next several months. In this regard, PG&E's selective quotations from the bankruptcy court are extremely misleading. In fact, the Bankruptcy Court rejected PG&E's plan for wholesale preemption and sent PG&E back

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<sup>1</sup> The CPUC has submitted to the Bankruptcy Court and to the Federal Energy Regulatory Commission a "Comparison of the Estimated Values of Transferred Assets and Consideration to PG&E" under PG&E's proposed Plan that sets forth these numbers. This Comparison is set forth on page 28 of Exhibit D to the CPUC's Petition that was filed on February 6, 2002 in this matter.

to come up with better solutions. Indeed, a few days after the ruling issued, an article in an industry-friendly newspaper highlighted what the Bankruptcy Court ruled:

“A federal bankruptcy judge delivered a warning blow to PG&E Corp. over its plan to place some of its most profitable assets outside California's control as part of the bankruptcy reorganization of its utility unit. Judge Dennis Montali said the plan put forth by the San Francisco utility for its Pacific Gas & Electric Co. unit amounted to a "full-scale attack" on state authority, a finding that hews to the position of California utility regulators.”

Rebecca Smith, “Judge Warns PG&E About Plans For Utility Unit's Reorganization,” The Wall Street Journal, February 11, 2002. The language of the Bankruptcy Court’s preemption decision of February 7 (a copy of which the CPUC submitted for the Commission’s consideration on its Renewed Motion to Dismiss, filed in this matter on February 11, 2002) speaks for itself. The Commission should read that Decision, and should not rely on PG&E’s skewed mischaracterization of it.

4. The viability of PG&E’s Plan is further called into question by the filing late last week in the Bankruptcy Court of the CPUC’s alternate plan of reorganization (“Alternate Plan”). A copy of the Term Sheet setting forth the principal terms of the CPUC’s Alternate Plan, filed with the Bankruptcy Court on February 13, 2002, is attached hereto as Exhibit A. A copy of a revised Term Sheet (correcting one small error in its February 13, 2002 filing) that the CPUC filed with the Bankruptcy Court on February 14, 2002 is attached hereto as Exhibit B. For the purposes of the Commission’s regulatory concern in this proceeding, the single most important aspect of the CPUC’s Alternate Plan is the fact that under this Alternate Plan, PG&E would retain ownership of the Diablo Canyon Power Plant (“DCPP”). Under the Alternate Plan, no license transfer

is required; no Commission approvals are required; this Commission's jurisdiction is not invoked.

5. On page 19 of the PG&E Answer, PG&E states: "there has been no showing that the assignment will create a post-reorganization regulatory gap or that there will be any loss of effective regulation." On its face, this is an absurd contention. A primary reason why the CPUC has opposed PG&E's Plan is that a great deal of very important state regulatory authority will be lost if that Plan were to be confirmed. The details of this drastic regulatory loss, and its significant adverse impacts on the well-being of that large percentage of California's 35 million citizens who live in PG&E's service area, are spelled out in Exhibits A through F of the CPUC's Petition that was filed on February 6, 2002 in this matter.

6. PG&E also attempts to mislead the Commission on an issue of vital importance to the Commission's consideration of any proposed license transfer, namely, the technical and financial qualifications of the proposed transferees, "Gen" and Diablo Canyon, LLC. PG&E states that its Application "demonstrates" such qualifications. However, the CPUC has already effectively rebutted these claims in its Petition that was filed on February 6, 2002 in this matter. *See*, in particular, Exhibit G to that Petition. The fact is, as the CPUC's filing amply shows, these new companies will be less reliable and trustworthy because of the nested LLC structure under which they are created, which structure is expressly and specifically intended to shield PG&E's shareholders from responsibility to the public. Nothing in the PG&E Answer in any way rebuts the CPUC's

showing that these new companies will be far less qualified and able to meet their public responsibilities than the current owner and operator of DCPD.

7. At pages 16-21 of the PG&E Answer, PG&E engages in an exercise of specious hand-waving in an ineffective attempt to dismiss an essential argument set forth in the CPUC Petition, namely, that the Commission cannot approve the license transfer application without the explicit, contemporaneous approval by the CPUC of the transfer of PG&E's beneficial interest of those portions of PG&E's Nuclear Decommissioning Trusts ("Trusts") that are attributable to DCPD. The Commission well knows that DCPD's portion of the Trusts must accompany the license transfer for the Commission to be able to approve the license transfer. PG&E in effect admits this, and can only plead that the merits of the CPUC's argument in this regard are before the Bankruptcy Court. *See*, PG&E Answer, at 17. However, as noted above, the very viability of PG&E's Plan before the Bankruptcy Court is now in serious doubt. Under such circumstances, the Commission cannot approve a license transfer request, even conditionally, when a fundamental element of that proposed transfer (in this case, the authority to approve the transfer of the DCPD portion of the Trusts) remains under the jurisdiction of another governmental entity (*i.e.*, the CPUC) that opposes the license transfer application. PG&E's arguments on this point simply do not add up.

8. At pages 30-32 of the PG&E Answer, PG&E attempts to dismiss the CPUC concern about the potential threat to public health and safety if DCPD is allowed to operate under market-based rates. However, this argument misses the points, amply set forth at pages 21-43 of, and in Exhibit G to, the CPUC's petition, filed in this matter on

February 6, 2002, that (a) the proposed transferees will not be financially able to meet their basic health and safety-related obligations without approval by the Federal Energy Regulatory Commission of illegal, unjust and unreasonable rates; and (b) the transition to market based rates will clearly impose a financial disincentive to actively pursue comprehensive solutions to present and future security and environmental problems. The Commission must seriously consider these facts, and should ignore PG&E's misguided attempt to blind the Commission to these considerations of fundamental public policy importance.

9. At pages 25-28 of the PG&E Answer, PG&E tries to convince the Commission that its approval action is a mere formality, and that the Commission's role in PG&E's corporate reorganization is limited. PG&E emphasizes the relative non-importance of the Commission's license approval to the State of California, arguing that the approval "would not, in itself, change the regulatory role of the CPUC." *See*, PG&E Answer, at 26. This statement is inherently wrong. While owned by the PG&E utility, the DCPD is under the jurisdiction of the CPUC. However, PG&E contemplates that Plan approval would transfer the plant from the CPUC's jurisdiction. Although the license transfer request is just one step in PG&E's attempt to escape its obligations to California citizens, it is certainly an important step, and the Commission should recognize the significance of the license approval to the state of California. The PG&E Plan is not simply a corporate reorganization involving some name changes. Rather, it is tailored to minimize the company's responsibilities to the PG&E ratepayers. Under the Plan, PG&E will transfer DCPD away from the regulated utility, but transfer the non-useful Humboldt



Bay nuclear plant back to the utility. More than a name change, the Plan is a ruse designed to allow PG&E's corporate parent to maximize corporate profits while turning its back on the ratepayers who have built the utility's infrastructure. PG&E does not address the effect that this proposed transfer will have on ratepayers, who would no longer have a forum in California in which to bring their complaints. Such a loss of regulatory oversight is an important public policy consideration that the Commission cannot ignore.

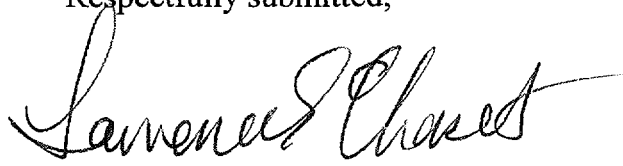
10. At pages 32-33 of the PG&E Answer, PG&E dismisses, as a matter of no importance, the existence of the Diablo Canyon Independent Safety Committee. The DCISC was created out of a settlement between PG&E and the CPUC. However, if the proposed license transfer is approved, PG&E no longer will have to comply with the terms of that settlement. PG&E may have no regard for the very important safety oversight responsibility provided by the DCISC, but the CPUC certainly does, and so should the Commission. The Commission cannot and should not neglect to see the negative public safety implications of any action it might take to approve the proposed license transfer. One of these negative safety implications would be the demise of the DCISC. If the Commission truly cares about public health and safety, it must take this fact into account as it considers the Application before it in this matter. It is irrelevant that the NRC did not create the DCISC; PG&E's arguments evidence yet another instance of PG&E turning its back on California by attempting to bypass its agreements with the state.

10. Finally, contrary to the assertions set forth at pages 5-7 of in the PG&E Answer, waiver of Commission's rules, as requested, is permissible under 10 CFR § 2.1329 when, "because of special circumstances concerning the subject of the hearing, application of the rule would not support the purposes for which it was adopted." *See*, 10 CFR §2.1329(b). The issues here are certainly unusual and compelling, because PG&E would have the Commission ignore the Bankruptcy Court, and completely disregard a wide array of California laws in the name of the requested license transfer. While one purpose of the subpart M hearing is to minimize administrative hurdles, under the present circumstances, PG&E's proposal requires a more detailed procedural review. Additionally, the CPUC has met the requirements of 2.1329(c) by filing detailed support for the proposition that PG&E's plan is highly unorthodox, controversial, and not viable, and that a streamlined Subpart M hearing would not serve the interests of the Commission in evaluating PG&E's unusual license transfer request.

Contrary to PG&E's assertions, the CPUC has most assuredly demonstrated a basis for the denial of PG&E's Application in this matter. For this and all the foregoing reasons, and especially because the Bankruptcy Court has rejected outright the preemption strategy upon which PG&E's Plan and its associated Application herein depends, the Commission should ignore the misleading and erroneous arguments set forth in PG&E's Answer and should proceed to dismiss PG&E's Application on file in this matter. At a minimum, the NRC should hold any proceedings in this matter in abeyance until there is a viable Plan pending before the Bankruptcy Court.

February 20, 2002

Respectfully submitted,

A handwritten signature in cursive script, reading "Laurence G. Chaset". The signature is written in black ink and is positioned above a horizontal line.

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Arocles Aguilar, Assistant General Counsel  
Laurence G. Chaset, Staff Counsel  
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12 UNITED STATES BANKRUPTCY COURT  
13 NORTHERN DISTRICT OF CALIFORNIA  
14 SAN FRANCISCO DIVISION

14 In re

15 PACIFIC GAS AND ELECTRIC COMPANY,  
16 a California corporation,

17 Debtor.

18 Federal I.D. No. 94-0742640  
19

Case No. 01-30923 DM

Chapter 11 Case

**NOTICE OF CALIFORNIA PUBLIC  
UTILITIES COMMISSION'S  
FILING OF PROPOSED PLAN  
TERM SHEET**

20 **PLEASE TAKE NOTICE** that, pursuant to an order of this Court, dated February 3,  
21 2002 (the "Second Exclusivity Order"), the California Public Utilities Commission (the  
22 "Commission") hereby files a term sheet (together with all exhibits and attachments thereto, the  
23 "Plan Term Sheet") describing the principal terms of a proposed alternate plan of reorganization  
24 that the Commission seeks to file in the above-captioned chapter 11 case (the "Alternate Plan").  
25 Attached as Exhibits to the Commission's Plan Term Sheet are the following additional  
26 documents:

- 27 (1) **Exhibit A** – Proposed classification and treatment of allowed claims;  
28

1 (2) **Exhibit B** – A detailed analysis of the sources and uses of funds under the  
2 Commission's Alternate Plan (including comparisons with the First Amended Plan of  
3 Reorganization proposed by the above-captioned debtor and PG&E Corporation); and

5 (3) **Exhibit C** – A proposed timeline for the Commission's Alternate Plan.

6 In accordance with the Second Exclusivity Order, copies of this Notice and the Plan  
7 Term Sheet have been served by facsimile and overnight mail to counsel for the above-captioned  
8 debtor and debtor in possession, counsel for the Official Committee of Unsecured Creditors in  
9 this chapter 11 case and the Office of the United States Trustee. In addition, copies have been  
10 served by facsimile and overnight mail to counsel for PG&E Corporation. *See Declaration of*  
11 *Service of Joseph L. Monzione.*

12 The filing of this Notice and the attached Plan Term Sheet shall not be deemed or  
13 construed as a waiver of any objections or defenses that the Commission or any other agency,  
14 unit or entity of the State of California may have to this Court's jurisdiction over the  
15 Commission or such other agency, unit or entity based upon the Eleventh Amendment of the  
16 United States Constitution or related principles of sovereign immunity or otherwise, all of which  
17 are hereby reserved.

18 DATED: February 13, 2002

19 Respectfully,

20 GARY M. COHEN  
21 AROCLES AGUILAR  
22 MICHAEL M. EDSON  
23 OFFICE OF THE GENERAL COUNSEL  
24 CALIFORNIA PUBLIC UTILITIES COMMISSION

25 \_\_\_\_\_  
26 GARY M. COHEN

27 -AND-

28 ALAN W. KORNBERG  
BRIAN S. HERMANN  
PAUL, WEISS, RIFKIND, WHARTON & GARRISON

Attorneys for the California Public Utilities Commission

***In re PACIFIC GAS AND ELECTRIC COMPANY, Debtor***  
**Commission's Proposed Term Sheet for Alternate Plan of Reorganization**

The following describes the principal terms of a proposed alternate plan of reorganization (the "Alternate Plan") to be filed by the California Public Utilities Commission (the "Commission") in the chapter 11 case of Pacific Gas and Electric Company ("PG&E").<sup>1</sup>

This Proposed Term Sheet is based solely upon publicly available and other information available to the Commission and is subject to modification upon receipt by the Commission of additional information.

The Alternate Plan is based upon, among other things, various assumptions and projections, including, but not limited to, those relating to future actions to be taken by the Commission. Such assumptions and projections are made solely for purposes of describing the Alternate Plan and for no other purpose and are not binding upon the Commission.

**Plan Proponent:** The Commission.

**Classification and Treatment of Allowed Claims:** See Exhibit A.

**Plan Funding:** Allowed Claims<sup>2</sup> (together with postpetition interest at the lowest non-default contract rate or, if no contract or non-default rate exists, then at the federal judgment rate)<sup>3</sup> will be satisfied in full through a combination of cash and the reinstatement or refinancing of certain of PG&E's long-term indebtedness.

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<sup>1</sup> The terms hereof have yet to be negotiated with PG&E, the Official Committee of Unsecured Creditors appointed in this chapter 11 case, or other key constituencies. The Commission reserves the right to alter the terms hereof based upon the outcome of such negotiations.

<sup>2</sup> Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in PG&E's First Amended Plan of Reorganization, dated December 19, 2001 (as subsequently amended or modified, the "First Amended Plan").

<sup>3</sup> Consistent with PG&E's First Amended Plan, except as provided by otherwise applicable non-bankruptcy law, postpetition interest will not be paid on the following Allowed Claims: Administrative Expense Claims, Environmental, Fire Suppression and Tort Claims and Chromium Litigation Claims.

Specifically, PG&E's short-term indebtedness incurred during the energy crisis and matured obligations (*i.e.* Allowed Claims in Classes 1, 4f, 5, 6 and 7) together with all Allowed Administrative Claims, Professional Compensation and Reimbursement Claims, Priority Tax Claims, Other Secured Claims (Class 2) and Convenience Claims (Class 10) will be paid in full in cash.<sup>4</sup> PG&E's long-term debt (Classes 3, 4a-e, 4g and 11) will be reinstated pursuant to section 1124(2) of the Bankruptcy Code<sup>5</sup> and shall remain outstanding. All other Allowed Claims (Classes 8, 9 and 12) will be paid in the ordinary course of PG&E's business when and if the same become due and payable.

The holders of PG&E's Preferred and Common Stock Equity Interests (Classes 13 and 14) will retain their respective interests. Accrued and unpaid dividends and sinking fund payments in respect of PG&E's Preferred Stock Equity Interests (approximately \$56 million according to PG&E's estimates) will be paid from PG&E's cash on hand and residual revenues.

See Exhibit B for more detail regarding the funding sources and uses under the Commission's Alternate Plan.

**Projected Effective Date:** No later than January 31, 2003 (the "Effective Date").

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<sup>4</sup> According to PG&E's 8-K filing with the Securities and Exchange Commission on November 30, 2001 (the most recent publicly available information as of the date of this Term Sheet), PG&E has approximately \$4.875 billion of cash on hand (including short-term investments). The Commission projects that PG&E's cash balance will increase by approximately \$2.98 billion through January 31, 2003 through a combination of (i) PG&E's residual revenues (*i.e.* the excess of retail electric rates over wholesale power, transmission, distribution and other related costs), estimated to equal \$1.75 billion for the period December 1, 2001 through January 31, 2003 (note, PG&E has been earning excess revenues over costs since June 2001), and (ii) PG&E's projected retained return on rate base of approximately \$1.23 billion. See Schedule 3 to Exhibit B for more detail.

<sup>5</sup> All references to the Bankruptcy Code are to title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*

<b>Regulation:</b>	All of PG&E's operations would continue to be regulated by the Commission and the various other federal, State and local agencies currently charged with that responsibility.
<b>Dividend and Other Restrictions:</b>	PG&E would be prohibited from declaring or making cash distributions to PG&E Corporation (including by way of dividends and stock repurchases) for 2001, 2002 and 2003.
<b>Net Open Position:</b>	To be resumed by PG&E upon its satisfaction of FERC's creditworthiness requirements, which is assumed to occur no later than January 2003.
<b>Post-Bankruptcy Rate Structure:</b>	The Commission would establish a cost-of-service rate structure that would provide PG&E with an opportunity to recoup its costs and earn a reasonable return on its assets consistent with State law. This cost-of-service rate structure would become effective after all Allowed Claims and dividend and sinking fund payments in respect of PG&E's Preferred Stock Equity Interests have been satisfied in full (together with postpetition interest, where applicable).
<b>Litigation Trust:</b>	On the Effective Date a litigation trust would be established. PG&E would initially fund the trust with (i) cash in an amount to be determined and (ii) various estate claims and causes of action, including but not limited to (a) claims against PG&E Corporation, (b) affirmative recoveries related to refund claims pending before the FERC, (c) other claims against sellers of electricity in the wholesale market, and (d) the first proceeds of recoveries, if any, in the Rate Recovery Litigation in an amount equal to the residual revenues collected from PG&E's ratepayers since June 2001, which amount is estimated not to exceed \$1.75 billion. The proceeds of the litigation trust would be distributed solely to or for the benefit of PG&E's ratepayers; the proceeds would <i>not</i> be used to fund distributions to holders of Allowed Claims and Interests.
<b>Executory Contracts/Unexpired Leases:</b>	PG&E shall assume all of the executory contracts and unexpired leases to be assumed, or assumed and assigned to Etrans, Gtrans, Gen and other entities under PG&E's First Amended Plan.
<b>Claims Resolution:</b>	PG&E or reorganized PG&E (as the case may be)



shall administer the claims resolution process under the supervision of a plan administrator to be approved by the Commission. The reasonable fees and expenses incurred by PG&E or reorganized PG&E (as the case may be) and the plan administrator incurred in the conduct of the claims resolution process shall be paid from the operations of PG&E or reorganized PG&E, respectively.

**Additional Sources of  
Liquidity upon Emergence  
from Chapter 11:**

The Alternate Plan assumes that reorganized PG&E will obtain a credit facility sufficient to meet any short-term working capital needs. In addition, the Alternate Plan assumes that PG&E will retain approximately \$423 million in cash after making all plan-related distributions required on or before the Effective Date.

**Miscellaneous:**

Each of the terms described herein is an integral aspect of the Commission's Alternate Plan and, as such, is non-severable from the others.

The Commission's Alternate Plan remains subject in all respects, among other things, to the Court's termination of PG&E's plan exclusivity to allow the Commission to file and solicit acceptances to its Alternate Plan and to the preparation, execution and delivery of definitive documentation in form and substance satisfactory to the Commission.

**Exhibit A**

**Classification and Treatment of Allowed Claims**

<b><u>Class</u></b>	<b><u>Claim/Interest</u></b>	<b><u>Treatment of Allowed Claim/Interest</u></b>	<b><u>Estimated Aggregate Amount of Allowed Claims (in millions)<sup>1</sup></u></b>	<b><u>Estimated % Recovery on Allowed Claims</u></b>
—	Administrative Expense Claims	Same as PG&E's First Amended Plan – paid in full in cash.	\$1,300	100%
—	Professional Compensation and Reimbursement Claims	Same as PG&E's First Amended Plan – paid in full in cash.	Unknown	100%
—	Priority Tax Claims	Same as PG&E's First Amended Plan – paid in full in cash.	\$54	100%
1	Other Priority Claims	Same as PG&E's First Amended Plan – paid in full in cash.	Nominal	100%
2	Other Secured Claims	Same as PG&E's First Amended Plan – paid in full in cash.	Nominal	100%

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<sup>1</sup> Amounts are based on PG&E's estimates contained in the First Amended Disclosure Statement for First Amended Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for Pacific Gas And Electric Company Proposed by Pacific Gas And Electric Company and PG&E Corporation, dated December 19, 2001 (as subsequently amended or modified, the "First Amended Disclosure Statement").

		– paid in full in cash.		
3	Secured Claims Relating to First and Refunding Mortgage Bonds	To remain outstanding and be reinstated pursuant to section 1124(2) of the Bankruptcy Code. Accrued and unpaid interest due and owing through the last scheduled interest payment date preceding the Effective Date shall be paid in cash at the lowest non-default contract rate. Any and all other cure amounts resulting from such reinstatement to be determined.	\$3,310 <sup>2</sup>	100%
4a	Mortgage Backed PC Bond Claims	Same as PG&E's First Amended Plan – the Mortgage Backed PC Bonds will remain outstanding and be reinstated pursuant to section 1124(2) of the Bankruptcy Code. Accrued and unpaid interest due and owing through the last scheduled interest payment date preceding the Effective Date shall be paid in cash at the lowest non-default contract rate. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the applicable Loan Agreements will also be paid in full in cash. Any and all other cure amounts resulting from such reinstatement to be determined.	\$345	100%
4b	MBIA Insured PC Bond Claims	Same as PG&E's First Amended Plan – the MBIA Insured PC Bonds will remain outstanding and be reinstated pursuant to section 1124(2) of the Bankruptcy Code. Accrued and unpaid interest due and owing through the last scheduled interest payment date preceding the Effective Date shall be paid in cash at the lowest non-default contract rate. All	\$200	100%

<sup>2</sup> According to PG&E's First Amended Disclosure Statement, \$277 million of such amount is held by PG&E in treasury.

		unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the Loan Agreement will also be paid in full in cash. Any and all other cure amounts resulting from such reinstatement to be determined.		
4c	MBIA Claims	Same as PG&E's First Amended Plan – Allowed MBIA Claims will be paid in cash in an amount equal to 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 through the last scheduled interest payment date preceding the Effective Date, together with all other amounts due and owing to MBIA under the terms of the MBIA Reimbursement Agreement through the Effective Date, including interest at the non-default contract rate due on such amounts to the extent provided in the MBIA Reimbursement Agreement.	Nominal	100%
4d	Letter of Credit Backed PC Bond Claims	Same as PG&E's First Amended Plan – the Letter of Credit Backed PC Bonds will remain outstanding and be reinstated pursuant to section 1124(2) of the Bankruptcy Code. Accrued and unpaid interest due and owing through the last scheduled interest payment date preceding the Effective Date shall be paid in cash at the lowest non-default contract rate. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the applicable Loan Agreements will also be paid in full in cash. Any and all other cure amounts resulting from such reinstatement to be determined.	\$610	100%

4e	Letter of Credit Bank Claims	<p>To the extent that PG&amp;E 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 <i>pro rata</i> 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 through 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 <i>pro rata</i> 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 interest at the non-default rate due on such amounts to the extent provided in the respective Reimbursement Agreements, any due and owing Forbearance, Extension and Letter of Credit Fees through the Effective Date, and the reasonable fees and expenses of unrelated third-party</p>	Nominal	100%
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		professionals retained by the Letter of Credit Issuing Banks, to the extent incurred subsequent to the Petition Date, which with respect to each Letter of Credit Issuing Bank for the period prior to December 1, 2001 shall be in an aggregate amount not to exceed the amount mutually agreed to by PG&E and each Letter of Credit Issuing Bank.		
4f	Prior Bond Claims	Each holder of an Allowed Prior Bond Claim will be paid in cash in an amount equal to its <i>pro rata</i> share of (i) the accrued and unpaid interest at the non-default rate due on the outstanding Reimbursement Obligations of PG&E to such holder under the respective Prior Reimbursement Agreement in accordance with the terms thereof through the Effective Date, (ii) all other amounts (other than the Reimbursement Obligations) due and owing to the respective Prior Letter of Credit Issuing Bank under the terms of the respective Prior Reimbursement Agreement through the Effective Date, and (iii) the outstanding Reimbursement Obligations.	\$450	100%
4g	Treasury PC Bond Claims	Same as PG&E's First Amended Plan – each Allowed Treasury PC Bond Claim shall remain outstanding and be reinstated in accordance with section 1124(2) of the Bankruptcy Code. Accrued and unpaid interest due and owing through the last scheduled interest payment date preceding the Effective Date shall be paid in cash at the lowest non-default contract rate. All unpaid fees and expenses of the Issuer and Bond Trustee due and owing under the applicable Loan Agreements will also	\$80	100%

		be paid in full in cash. Any and all other cure amounts resulting from such reinstatement to be determined.		
5	General Unsecured Claims	Paid in full in cash, together with postpetition interest at the lowest non-default contract rate or, if no such rate exists, then at the federal judgment rate.	\$3,510 <sup>3</sup>	100%
6	ISO, PX and Generator Claims	Paid in full in cash, together with postpetition interest at the lowest non-default contract rate or, if no such rate exists, then at the federal judgment rate.	\$1,070	100%
7	ESP Claims	Paid in full in cash, together with postpetition interest at the lowest non-default contract rate or, if no such rate exists, then at the federal judgment rate.	\$420	100%
8	Environmental, Fire Suppression and Tort Claims	Same as PG&E's First Amended Plan – satisfied in full in the ordinary course of PG&E's business at such time and in such manner as PG&E is obligated to satisfy such Allowed Claims under applicable law.	\$350	100%
9	Chromium Litigation Claims	Paid in full in cash in the ordinary course of PG&E's business at such time and in such manner as PG&E is obligated to satisfy such Allowed Claims.	\$160	100%
10	Convenience Claims	Same as PG&E's First Amended Plan – paid in full in cash.	\$60	100%
11	QUIDS Claims	The QUIDS Claims will remain outstanding and be reinstated in accordance with section 1124(2) of	\$310	100%

<sup>3</sup> This amount is net of \$1,060 billion of QF claims now classified as Administrative Expense Claims. According to counsel for PG&E and PG&E Corporation, the higher amount of General Unsecured Claims included in the First Amended Disclosure Statement (\$4,570) was overstated by the same \$1,060 billion.

		the Bankruptcy Code. Accrued and unpaid interest due and owing through the last scheduled interest payment date preceding the Effective Date shall be paid in cash at the lowest non-default contract rate. Any and all other cure amounts resulting from such reinstatement to be determined.		
12	Workers' Compensation Claims	Same as PG&E's First Amended Plan – paid in full in cash in the ordinary course of PG&E's business at such time and in such manner as PG&E is obligated to satisfy such Allowed Claims under applicable law.	To come	100%
13	Preferred Stock Equity Interests	Same as PG&E's First Amended Plan – each holder of a Preferred Stock Equity Interest will retain its Preferred Stock in PG&E and will be paid in cash any dividends and sinking fund payments accrued in respect of such Preferred Stock through the last scheduled payment date prior to the Effective Date.	\$430	100%
14	Common Stock Equity Interests	PG&E Corporation will retain its Common Stock in PG&E.	N/A	N/A



**Exhibit B**

**Sources and Uses of Funds**

[See Attached]

# PACIFIC GAS AND ELECTRIC COMPANY

## SCHEDULE 1

### PLAN OF REORGANIZATION - PROPOSED BY THE COMMISSION - Dollars in \$Millions

SOURCES OF FUNDS	
	Total
<u>Cash Available to Pay Creditors</u>	
Cash at Emergence @ January 31, 2003 (1)	\$ 6,864
<u>Reinstated / Refinanced Debt &amp; Obligations</u>	
Class 3	3,310
Class 4	1,235
Class 11 - QUIDS Claims	310
Subtotal (Debt)	4,855
Class 8 - Environmental, Fire Suppression and Tort Claims	350
Class 9 - Chromium Claims	160
Class 12 - Workers' Compensation Claims (2)	-
Class 13 - Preferred Equity	430
Subtotal (Obligations)	940
Total Reinstated / Refinanced Debt & Obligations	5,795
<b>Total Sources of Funds</b>	<b>\$ 12,659</b>

Notes:

- (1) See Schedule 3 for details.
- (2) PG&E's disclosure statement does not disclose an estimate for Class 12 claims.

# PACIFIC GAS AND ELECTRIC COMPANY

## SCHEDULE 2

### PLAN OF REORGANIZATION - PROPOSED BY THE COMMISSION -

Dollars in \$Millions

USES OF FUNDS							
	(1) Claims	Adj.	Adjusted Claims	Cash	Reinstated / Refinanced Debt	Reinstated / Refinanced Obligations	Total
<u>Class 1 &amp; 2</u>							
Administrative & Priority	\$ 1,300	\$ -	\$ 1,300	\$ 1,300	\$ -	\$ -	\$ 1,300
Professional Fees & Reimbursement							-
Priority Tax Claims	54	-	54	54	-	-	54
Subtotal	1,354	-	1,354	1,354	-	-	1,354
<u>Class 3: Secured Claims - First / Refunded Mortgage Bonds (2)</u>	3,310	-	3,310	-	3,310	-	3,310
<u>Class 4</u>							
(a) Mortgage-Backed PC Bonds	345	-	345	-	345	-	345
(b) MBIA Insured PC Bonds	200	-	200	-	200	-	200
(c) MBIA Claims							-
(d) Letter of Credit Backed PC Bond Claims	610	-	610	-	610	-	610
(e) Letter of Credit Bank Claims							-
(f) Prior Bond Claims	450	-	450	450	-	-	450
(g) Treasury PC Bond Claims	80	-	80	-	80	-	80
Subtotal	1,685	-	1,685	450	1,235	-	1,685
<u>Class 5: General Unsecured Claims (3)</u>	4,570	(1,060)	3,510	3,510	-	-	3,510
<u>Class 6: ISO, PX, Generator Claims</u>	1,070	-	1,070	1,070	-	-	1,070
<u>Class 7: ESP Claims</u>	420	-	420	420	-	-	420
<u>Class 8: Environmental Claims</u>	350	-	350	-	-	350	350
<u>Class 9: Chromium Claims</u>	160	-	160	-	-	160	160
<u>Class 10: Convenience Claims</u>	60	-	60	60	-	-	60
<u>Class 11: QUIDS Claims</u>	310	-	310	-	310	-	310
<u>Class 12: Workers' Compensation Claims</u>	-	-	-	-	-	-	-
<u>Class 13: Preferred Equity</u>	430	-	430	-	-	430	430
<u>Class 14: Common Equity</u>	-	-	-	-	-	-	-
<b>Total Uses of Funds</b>	<b>\$ 13,719</b>	<b>\$ (1,060)</b>	<b>\$ 12,659</b>	<b>\$ 6,864</b>	<b>\$ 4,855</b>	<b>\$ 940</b>	<b>\$ 12,659</b>

Notes:

- (1) Source: PG&E disclosure statement. Amounts include prepetition interest, if any.
- (2) \$277 million of such amount is held by the Debtor in treasury.
- (3) In PG&E's disclosure statement, Class 5 claims and administrative expense claims both include \$1.06 billion of QF claims. As such, Class 5 claims have been adjusted downward by \$1.06 billion to reflect reclassification of QF claims to administrative expense claims from Class 5. Since administrative expense claims already include QF claims, no adjustment to administrative expense claims is required.

# PACIFIC GAS AND ELECTRIC COMPANY

SCHEDULE 3

## PLAN OF REORGANIZATION - PROPOSED BY THE COMMISSION - Dollars in \$Millions

CASH AVAILABLE FOR CREDITORS -- THE COMMISSION'S ESTIMATE	
<b>Cash on Hand @ November 30, 2001 (1)</b>	<b>\$ 4,875</b>
<u>Return on Capital</u>	
+ Return on Rate Base (2)	1,516
- Interest Paid on Class 3 (3)	(282)
Total Retained Return on Rate Base	1,234
<u>Utility Residual Generation Revenue</u>	
+ Month of December 2001	100
+ FY 2002	1,487
+ Month of January 2003	167
Total (December 2001 - January 2003)	1,754
<b>Projected Gross Cash @ January 31, 2003 (5)</b>	<b>7,862</b>
- Prepetition Interest (6)	-
- Postpetition Interest, Net of Mortgage Interest in Class 3	(746)
- Nominal Claims + Bankruptcy Costs	(50)
- Preferred Dividends (4)	(56)
- Cash (7)	(423)
+ Mortgage Bonds Held in Treasury	277
+ Draw on New Credit Facility (8)	-
<b>Projected Net Cash @ January 31, 2003</b>	<b>\$ 6,864</b>

Notes:

- (1) Source: PG&E monthly operating report for the month of November 2001.
- (2) Assumes a 9.12% return on rate base (as defined by the Commission). This amount represents total return on PG&E's capital as estimated to be retained by the Company from December 1, 2001 to January 31, 2003. Return on rate base is equal to the return built into the base rate for interest, preferred dividends, and return on equity, as defined by the Commission.
- (3) Interest paid from December 1, 2001 through January 31, 2003 on Class 3 claims.
- (4) Source: PG&E disclosure statement.
- (5) Cash available to pay claims, prepetition interest and postpetition interest.
- (6) Total claims in Schedule 2 include prepetition interest.
- (7) Estimated cash on hand upon exit from chapter 11.
- (8) The Commission's plan will provide for a credit facility to fund capital expenditures, working capital and, if necessary, distributions to unsecured creditors. The plan as presented assumes that the credit facility is undrawn at confirmation.

# PACIFIC GAS AND ELECTRIC COMPANY

## SCHEDULE 4

### PLAN OF REORGANIZATION - PROPOSED BY THE COMMISSION - Dollars in \$Millions

COMPARISON -- SOURCES OF FUNDS			
	Commission Plan	PG&E Plan	Variance
Cash Available for Creditors at Emergence	\$ 6,864	\$ 2,915	\$ 3,949
Cash from New Money Notes	-	5,175	(5,175)
Cash from New Mortgage Bonds	-	345	(345)
Cash from New QUIDS	-	310	(310)
Total Cash	6,864	8,745	(1,881)
New Notes	-	2,244	(2,244)
Total Reinstated / Refinanced Debt & Obligations	5,795	1,670	4,125
<b>Total Sources of Funds (1)</b>	<b>\$ 12,659</b>	<b>\$ 12,659</b>	<b>\$ -</b>

#### Notes:

- (1) In PG&E's disclosure statement, Class 5 claims and administrative expense claims both include \$1.06 billion of QF claims. As such, Class 5 claims have been adjusted downward by \$1.06 billion to reflect reclassification of QF claims to administrative expense claims from Class 5. Since administrative expense claims already include QF claims, no adjustment to administrative expense claims is required.

# PACIFIC GAS AND ELECTRIC COMPANY

SCHEDULE 5

## PLAN OF REORGANIZATION - PROPOSED BY THE COMMISSION - Dollars in \$Millions

COMPARISON -- USES OF FUNDS								
	Commission Plan			PG&E Plan				
	Cash	Reinstated/ Refinanced Debt	Reinstated/ Refinanced Obligations	Cash (2)	New Notes	Reinstated/ Refinanced Debt	Reinstated/ Refinanced Obligations	
Class 1 & 2	\$ 1,354	\$ -	\$ -	\$ 1,354	\$ -	\$ -	\$ -	
Class 3	-	3,310	-	3,310	-	-	-	
Class 4	450	1,235	-	615	180	890	-	
Class 5	3,510	-	-	2,106	1,404	-	-	
Class 6	1,070	-	-	642	428	-	-	
Class 7	420	-	-	252	168	-	-	
Class 8	-	-	350	-	-	-	350	
Class 9	-	-	160	96	64	-	-	
Class 10	60	-	-	60	-	-	-	
Class 11	-	310	-	310	-	-	-	
Class 12	-	-	-	-	-	-	-	
Class 13	-	-	430	-	-	430	-	
Class 14	-	-	-	-	-	-	-	
<b>Subtotal, Uses of Funds</b>	<b>\$ 6,864</b>	<b>\$ 4,855</b>	<b>\$ 940</b>	<b>\$ 8,745</b>	<b>\$ 2,244</b>	<b>\$ 1,320</b>	<b>\$ 350</b>	
<b>Total Uses of Funds (1)</b>			<b>\$ 12,659</b>				<b>\$ 12,659</b>	

**Notes:**

- (1) In PG&E's disclosure statement, Class 5 claims and administrative expense claims both include \$1.06 billion of QF claims. As such, Class 5 claims have been adjusted downward by \$1.06 billion to reflect reclassification of QF claims to administrative expense claims from Class 5. Since administrative expense claims already include QF claims, no adjustment to administrative expense claims is required.
- (2) Pursuant to the PG&E plan, \$5.2 billion of the cash used to settle claims will come from the issuance of New Money Notes.

## **Exhibit C**

### **Proposed Timeline for Commission's Alternate Plan**

The following is a proposed timeline for the Commission's Alternate Plan:<sup>1</sup>

- **on or before April 15, 2002** – Commission would serve and file with the Bankruptcy Court its Alternate Plan and proposed disclosure statement;<sup>2</sup>
- **on or before May 15, 2002** – Bankruptcy Court would conduct a hearing to consider the adequacy of the Commission's proposed disclosure statement;
- **on or before June 17, 2002** – Commission would begin soliciting votes for its Alternate Plan;
- **on or before September 16, 2002** – Bankruptcy Court would conduct a hearing to consider confirmation of the Commission's Alternate Plan (allows for 60-day solicitation period, if necessary);
- **on or before January 31, 2003** – effective date of Alternate Plan.

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<sup>1</sup> These dates are good faith estimates only. They are subject to change based upon a number of factors, including, without limitation, the Court's calendar and intervening events in this chapter 11 case.

<sup>2</sup> Assumes full cooperation by, and access to information of, PG&E.

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16 Attorneys for the California Public Utilities Commission

17 UNITED STATES BANKRUPTCY COURT  
18 NORTHERN DISTRICT OF CALIFORNIA  
19 SAN FRANCISCO DIVISION

20 In re

21 PACIFIC GAS AND ELECTRIC COMPANY,  
22 a California corporation,

23 Debtor.

24 Federal I.D. No. 94-0742640

Case No. 01-30923 DM

Chapter 11 Case

**NOTICE OF FILING OF  
CALIFORNIA PUBLIC UTILITIES  
COMMISSION'S PROPOSED PLAN  
TERM SHEET (WITHOUT  
EXHIBITS), AS CORRECTED**

25 **PLEASE TAKE NOTICE** that the California Public Utilities Commission (the  
26 "Commission") hereby files the Commission's Proposed Plan Term Sheet (without exhibits), as  
27 corrected. Also included is a "blacklined" version of the corrected Proposed Plan Term Sheet  
28 marked to show changes from the brief as filed.

The corrected Proposed Plan Term Sheet corrects one error concerning the amount of the  
Rate Recovery Litigation proceeds to be paid to PG&E's ratepayers from the Litigation Trust,



1 which the Commission noticed after the Proposed Plan Term Sheet was filed. We regret this  
2 error.

3 DATED: February 14, 2002

5 Respectfully,

6 GARY M. COHEN  
7 AROCLES AGUILAR  
8 MICHAEL M. EDSON  
9 OFFICE OF THE GENERAL COUNSEL  
10 CALIFORNIA PUBLIC UTILITIES COMMISSION

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MICHAEL M. EDSON

-AND-

ALAN W. KORNBERG  
BRIAN S. HERMANN  
PAUL, WEISS, RIFKIND, WHARTON & GARRISON

Attorneys for the California Public Utilities Commission

***In re PACIFIC GAS AND ELECTRIC COMPANY, Debtor***  
**Commission's Proposed Term Sheet for Alternate Plan of Reorganization**

The following describes the principal terms of a proposed alternate plan of reorganization (the "Alternate Plan") to be filed by the California Public Utilities Commission (the "Commission") in the chapter 11 case of Pacific Gas and Electric Company ("PG&E").<sup>1</sup>

This Proposed Term Sheet is based solely upon publicly available and other information available to the Commission and is subject to modification upon receipt by the Commission of additional information.

The Alternate Plan is based upon, among other things, various assumptions and projections, including, but not limited to, those relating to future actions to be taken by the Commission. Such assumptions and projections are made solely for purposes of describing the Alternate Plan and for no other purpose and are not binding upon the Commission.

**Plan Proponent:** The Commission.

**Classification and Treatment of Allowed Claims:** See Exhibit A.

**Plan Funding:** Allowed Claims<sup>2</sup> (together with postpetition interest at the lowest non-default contract rate or, if no contract or non-default rate exists, then at the federal judgment rate)<sup>3</sup> will be satisfied in full through a combination of cash and the reinstatement or refinancing of certain of PG&E's long-term indebtedness.

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<sup>1</sup> The terms hereof have yet to be negotiated with PG&E, the Official Committee of Unsecured Creditors appointed in this chapter 11 case, or other key constituencies. The Commission reserves the right to alter the terms hereof based upon the outcome of such negotiations.

<sup>2</sup> Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in PG&E's First Amended Plan of Reorganization, dated December 19, 2001 (as subsequently amended or modified, the "First Amended Plan").

<sup>3</sup> Consistent with PG&E's First Amended Plan, except as provided by otherwise applicable non-bankruptcy law, postpetition interest will not be paid on the following Allowed Claims: Administrative Expense Claims, Environmental, Fire Suppression and Tort Claims and Chromium Litigation Claims.

Specifically, PG&E's short-term indebtedness incurred during the energy crisis and matured obligations (*i.e.* Allowed Claims in Classes 1, 4f, 5, 6 and 7) together with all Allowed Administrative Claims, Professional Compensation and Reimbursement Claims, Priority Tax Claims, Other Secured Claims (Class 2) and Convenience Claims (Class 10) will be paid in full in cash.<sup>4</sup> PG&E's long-term debt (Classes 3, 4a-e, 4g and 11) will be reinstated pursuant to section 1124(2) of the Bankruptcy Code<sup>5</sup> and shall remain outstanding. All other Allowed Claims (Classes 8, 9 and 12) will be paid in the ordinary course of PG&E's business when and if the same become due and payable.

The holders of PG&E's Preferred and Common Stock Equity Interests (Classes 13 and 14) will retain their respective interests. Accrued and unpaid dividends and sinking fund payments in respect of PG&E's Preferred Stock Equity Interests (approximately \$56 million according to PG&E's estimates) will be paid from PG&E's cash on hand and residual revenues.

See Exhibit B for more detail regarding the funding sources and uses under the Commission's Alternate Plan.

**Projected Effective Date:** No later than January 31, 2003 (the "Effective Date").

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<sup>4</sup> According to PG&E's 8-K filing with the Securities and Exchange Commission on November 30, 2001 (the most recent publicly available information as of the date of this Term Sheet), PG&E has approximately \$4.875 billion of cash on hand (including short-term investments). The Commission projects that PG&E's cash balance will increase by approximately \$2.98 billion through January 31, 2003 through a combination of (i) PG&E's residual revenues (*i.e.* the excess of retail electric rates over wholesale power, transmission, distribution and other related costs), estimated to equal \$1.75 billion for the period December 1, 2001 through January 31, 2003 (note, PG&E has been earning excess revenues over costs since June 2001), and (ii) PG&E's projected retained return on rate base of approximately \$1.23 billion. See Schedule 3 to Exhibit B for more detail.

<sup>5</sup> All references to the Bankruptcy Code are to title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*

<b>Regulation:</b>	All of PG&E's operations would continue to be regulated by the Commission and the various other federal, State and local agencies currently charged with that responsibility.
<b>Dividend and Other Restrictions:</b>	PG&E would be prohibited from declaring or making cash distributions to PG&E Corporation (including by way of dividends and stock repurchases) for 2001, 2002 and 2003.
<b>Net Open Position:</b>	To be resumed by PG&E upon its satisfaction of FERC's creditworthiness requirements, which is assumed to occur no later than January 2003.
<b>Post-Bankruptcy Rate Structure:</b>	The Commission would establish a cost-of-service rate structure that would provide PG&E with an opportunity to recoup its costs and earn a reasonable return on its assets consistent with State law. This cost-of-service rate structure would become effective after all Allowed Claims and dividend and sinking fund payments in respect of PG&E's Preferred Stock Equity Interests have been satisfied in full (together with postpetition interest, where applicable).
<b>Litigation Trust:</b>	On the Effective Date a litigation trust would be established. PG&E would initially fund the trust with (i) cash in an amount to be determined and (ii) various estate claims and causes of action, including but not limited to (a) claims against PG&E Corporation, (b) affirmative recoveries related to refund claims pending before the FERC, (c) other claims against sellers of electricity in the wholesale market, and (d) the first proceeds of recoveries, if any, in the Rate Recovery Litigation in an amount equal to the residual revenues collected from PG&E's ratepayers since at least June 2001. The proceeds of the litigation trust would be distributed solely to or for the benefit of PG&E's ratepayers; the proceeds would <i>not</i> be used to fund distributions to holders of Allowed Claims and Interests.
<b>Executory Contracts/Unexpired Leases:</b>	PG&E shall assume all of the executory contracts and unexpired leases to be assumed, or assumed and assigned to Etrans, Gtrans, Gen and other entities under PG&E's First Amended Plan.
<b>Claims Resolution:</b>	PG&E or reorganized PG&E (as the case may be) shall administer the claims resolution process under

the supervision of a plan administrator to be approved by the Commission. The reasonable fees and expenses incurred by PG&E or reorganized PG&E (as the case may be) and the plan administrator incurred in the conduct of the claims resolution process shall be paid from the operations of PG&E or reorganized PG&E, respectively.

**Additional Sources of  
Liquidity upon Emergence  
from Chapter 11:**

The Alternate Plan assumes that reorganized PG&E will obtain a credit facility sufficient to meet any short-term working capital needs. In addition, the Alternate Plan assumes that PG&E will retain approximately \$423 million in cash after making all plan-related distributions required on or before the Effective Date.

**Miscellaneous:**

Each of the terms described herein is an integral aspect of the Commission's Alternate Plan and, as such, is non-severable from the others.

The Commission's Alternate Plan remains subject in all respects, among other things, to the Court's termination of PG&E's plan exclusivity to allow the Commission to file and solicit acceptances to its Alternate Plan and to the preparation, execution and delivery of definitive documentation in form and substance satisfactory to the Commission.

***In re PACIFIC GAS AND ELECTRIC COMPANY, Debtor***  
**Commission’s Proposed Term Sheet for Alternate Plan of Reorganization**

The following describes the principal terms of a proposed alternate plan of reorganization (the “Alternate Plan”) to be filed by the California Public Utilities Commission (the “Commission”) in the chapter 11 case of Pacific Gas and Electric Company (“PG&E”).<sup>1</sup>

This Proposed Term Sheet is based solely upon publicly available and other information available to the Commission and is subject to modification upon receipt by the Commission of additional information.

The Alternate Plan is based upon, among other things, various assumptions and projections, including, but not limited to, those relating to future actions to be taken by the Commission. Such assumptions and projections are made solely for purposes of describing the Alternate Plan and for no other purpose and are not binding upon the Commission.

**Plan Proponent:** The Commission.

**Classification and Treatment of Allowed Claims:** See Exhibit A.

**Plan Funding:** Allowed Claims<sup>2</sup> (together with postpetition interest at the lowest non-default contract rate or, if no contract or non-default rate exists, then at the federal judgment rate)<sup>3</sup> will be satisfied in full through a combination of cash and the reinstatement or refinancing of certain of PG&E’s long-term indebtedness.

---

<sup>1</sup> The terms hereof have yet to be negotiated with PG&E, the Official Committee of Unsecured Creditors appointed in this chapter 11 case, or other key constituencies. The Commission reserves the right to alter the terms hereof based upon the outcome of such negotiations.

<sup>2</sup> Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in PG&E’s First Amended Plan of Reorganization, dated December 19, 2001 (as subsequently amended or modified, the “First Amended Plan”).

<sup>3</sup> Consistent with PG&E’s First Amended Plan, except as provided by otherwise applicable non-bankruptcy law, postpetition interest will not be paid on the following Allowed Claims: Administrative Expense Claims, Environmental, Fire Suppression and Tort Claims and Chromium Litigation Claims.

Specifically, PG&E's short-term indebtedness incurred during the energy crisis and matured obligations (*i.e.* Allowed Claims in Classes 1, 4f, 5, 6 and 7) together with all Allowed Administrative Claims, Professional Compensation and Reimbursement Claims, Priority Tax Claims, Other Secured Claims (Class 2) and Convenience Claims (Class 10) will be paid in full in cash.<sup>4</sup> PG&E's long-term debt (Classes 3, 4a-e, 4g and 11) will be reinstated pursuant to section 1124(2) of the Bankruptcy Code<sup>5</sup> and shall remain outstanding. All other Allowed Claims (Classes 8, 9 and 12) will be paid in the ordinary course of PG&E's business when and if the same become due and payable.

The holders of PG&E's Preferred and Common Stock Equity Interests (Classes 13 and 14) will retain their respective interests. Accrued and unpaid dividends and sinking fund payments in respect of PG&E's Preferred Stock Equity Interests (approximately \$56 million according to PG&E's estimates) will be paid from PG&E's cash on hand and residual revenues.

See Exhibit B for more detail regarding the funding sources and uses under the Commission's Alternate Plan.

**Projected Effective Date:** No later than January 31, 2003 (the "Effective Date").

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<sup>4</sup> According to PG&E's 8-K filing with the Securities and Exchange Commission on November 30, 2001 (the most recent publicly available information as of the date of this Term Sheet), PG&E has approximately \$4.875 billion of cash on hand (including short-term investments). The Commission projects that PG&E's cash balance will increase by approximately \$2.98 billion through January 31, 2003 through a combination of (i) PG&E's residual revenues (*i.e.* the excess of retail electric rates over wholesale power, transmission, distribution and other related costs), estimated to equal \$1.75 billion for the period December 1, 2001 through January 31, 2003 (note, PG&E has been earning excess revenues over costs since June 2001), and (ii) PG&E's projected retained return on rate base of approximately \$1.23 billion. See Schedule 3 to Exhibit B for more detail.

<sup>5</sup> All references to the Bankruptcy Code are to title 11 of the United States Code, 11 U.S.C. §§ 101 *et seq.*

<b>Regulation:</b>	All of PG&E's operations would continue to be regulated by the Commission and the various other federal, State and local agencies currently charged with that responsibility.
<b>Dividend and Other Restrictions:</b>	PG&E would be prohibited from declaring or making cash distributions to PG&E Corporation (including by way of dividends and stock repurchases) for 2001, 2002 and 2003.
<b>Net Open Position:</b>	To be resumed by PG&E upon its satisfaction of FERC's creditworthiness requirements, which is assumed to occur no later than January 2003.
<b>Post-Bankruptcy Rate Structure:</b>	The Commission would establish a cost-of-service rate structure that would provide PG&E with an opportunity to recoup its costs and earn a reasonable return on its assets consistent with State law. This cost-of-service rate structure would become effective after all Allowed Claims and dividend and sinking fund payments in respect of PG&E's Preferred Stock Equity Interests have been satisfied in full (together with postpetition interest, where applicable).
<b>Litigation Trust:</b>	On the Effective Date a litigation trust would be established. PG&E would initially fund the trust with (i) cash in an amount to be determined and (ii) various estate claims and causes of action, including but not limited to (a) claims against PG&E Corporation, (b) affirmative recoveries related to refund claims pending before the FERC, (c) other claims against sellers of electricity in the wholesale market, and (d) the first proceeds of recoveries, if any, in the Rate Recovery Litigation in an amount equal to the residual revenues collected from PG&E's ratepayers since <del>June 2001, which amount is estimated not to exceed \$1.75 billion</del> <u>at least June 2001</u> . The proceeds of the litigation trust would be distributed solely to or for the benefit of PG&E's ratepayers; the proceeds would <i>not</i> be used to fund distributions to holders of Allowed Claims and Interests.
<b>Executory Contracts/Unexpired Leases:</b>	PG&E shall assume all of the executory contracts and unexpired leases to be assumed, or assumed and assigned to Etrans, Gtrans, Gen and other entities under PG&E's First Amended Plan.



**Claims Resolution:**

PG&E or reorganized PG&E (as the case may be) shall administer the claims resolution process under the supervision of a plan administrator to be approved by the Commission. The reasonable fees and expenses incurred by PG&E or reorganized PG&E (as the case may be) and the plan administrator incurred in the conduct of the claims resolution process shall be paid from the operations of PG&E or reorganized PG&E, respectively.

**Additional Sources of Liquidity upon Emergence from Chapter 11:**

The Alternate Plan assumes that reorganized PG&E will obtain a credit facility sufficient to meet any short-term working capital needs. In addition, the Alternate Plan assumes that PG&E will retain approximately \$423 million in cash after making all plan-related distributions required on or before the Effective Date.

**Miscellaneous:**


Each of the terms described herein is an integral aspect of the Commission's Alternate Plan and, as such, is non-severable from the others.

The Commission's Alternate Plan remains subject in all respects, among other things, to the Court's termination of PG&E's plan exclusivity to allow the Commission to file and solicit acceptances to its Alternate Plan and to the preparation, execution and delivery of definitive documentation in form and substance satisfactory to the Commission.

**CERTIFICATE OF SERVICE**

I hereby certify that in accordance with the Commission's regulation at 10 CFR 2.1313, I have this day caused the foregoing document be served upon the parties by mailing by first-class mail a copy thereof properly addressed to each such party:

Dated at San Francisco, California, this 20th day of February, 2002.



Laurence G. Chaset