ATTACHMENT A

SETTLEMENT AGREEMENT

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of an Agreement Concerning Certain Generation Assets Known As "Contra Costa 8" Pursuant to A Settlement and Release of Claims Agreement Approved by the Commission on January 14, 2005, for Authority to Recommence Construction, and for Adoption of Cost Recovery and Ratemaking Mechanisms Related to the Acquisition, Completion, and Operation of the Assets. (U 39 E)	Application 05-06-029

SETTLEMENT AGREEMENT AMONG PACIFIC GAS AND ELECTRIC COMPANY, OFFICE OF RATEPAYER ADVOCATES, CALIFORNIA UNIONS FOR RELIABLE ENERGY, AND THE UTILITY REFORM NETWORK

In accordance with Rule 51.1 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, Pacific Gas and Electric Company (PG&E), the Office of Ratepayer Advocates (ORA), California Unions for Reliable Energy (CURE), and The Utility Reform Network (TURN), hereby enter into this Settlement Agreement in order to resolve all issues associated with PG&E's Application for Approval of An Agreement Concerning Certain Generation Assets Known as "Contra Costa 8" Pursuant to a Settlement and Release of Claims Agreement Approved By the Commission on January 14, 2005, for Authority to Recommence Construction, and for Adoption of Cost Recovery and Ratemaking Mechanisms Related to the Acquisition, Completion, and Operation of the Assets.

RECITALS

1. On May 30, 2001, the California Energy Commission (CEC) issued a decision approving Mirant Delta LLC's proposed 530 megawatt (MW) Contra Costa 8 generation project near Antioch, California ("CC8" or "the project"), together with conditions to mitigate environmental and community impacts. The CEC is the lead agency for CEQA review of new thermal powerplants with more than 50 MW of generating capacity. The CEC conducted an environmental review of the project, and has continuing jurisdiction over compliance with the conditions of its decision.

2. On January 14, 2005, the Commission approved and signed a Settlement and Release of Claims Agreement, resolving matters and claims raised in proceedings that were initiated with respect to events in the California Independent System Operator Corporation and California Power Exchange (CalPX) energy and ancillary services markets during the period from June 1, 2000 through June 20, 2001 as they relate to Mirant. Among other things the Settlement and Release of Claims Agreement constituted authorization for PG&E to either acquire and take ownership of the CC8 assets and to effect the other ancillary transactions included or intended to be addressed in the Asset Transfer Agreement and ancillary agreements, and required PG&E, Delta and Mirant Special Procurement, Inc. to use good faith, commercially reasonable efforts to negotiate and execute an Asset Transfer Agreement for CC8 that transfers and assigns the CC8 assets to PG&E or its designee. If CPUC does not approve the CC8 Asset Transfer Agreement and the transactions contemplated therein without material changes, modifications or conditions to PG&E's Application by December 31, 2006, or rejects the CC8 Asset Transfer Agreement or the transactions contemplated therein in whole or in material part, or the CC8 Closing Date has not occurred for any reason by June 20, 2008, or for other reasons stated in the Settlement and Release of Claims Agreement or Asset Transfer Agreement, PG&E may receive alternative consideration in the form of an allowed, prepetition, non-priority general unsecured claim against Delta in its Bankruptcy Proceedings that will result in a total aggregate

distribution to PG&E of $70 million in cash and/or securities. The Federal Energy Regulatory Commission approved the Settlement and Release of Claims Agreement on April 13, 2003 (111 FERC 61,017). The PG&E Bankruptcy Court and Mirant Bankruptcy Court also approved it.

3. On June 17, 2005, PG&E filed an application for approval of the terms and conditions of the Asset Transfer Agreement referred to in the Settlement and Release of Claims Agreement, including all ancillary documents and agreements, concerning the CC8 assets (i.e., the CEC-approved, partially constructed facility owned by the Mirant parties), together with ratemaking and cost recovery provisions designed to allow the plant to be completed and operated on a cost-of-service basis for 30 years, and a certificate of public convenience and necessity to complete construction of the plant as its developer.

4. Timely protests to PG&E's application were filed by ORA, the Independent Energy Producers Association, the City and County of San Francisco (CCSF), and Modesto and Merced Irrigation Districts (MID). PG&E filed a response to these protests on July 28, 2005. A prehearing conference was held on August 11, 2005, with all of these parties, plus TURN, CURE, and Californians for Renewable Energy (CARE), in attendance. On August 16, 2005, the Commission issued a scoping memo that limited the scope of the proceeding to certain issues identified by PG&E and other parties who protested the application, and directed PG&E to begin collaborative meetings before August 26, 2005. PG&E initiated settlement discussions, with notice to all parties on the service list. Opening testimony was filed on October 14 by CCSF, MID, ORA, and Californians for Renewable Energy (CARE). Rebuttal testimony was filed by PG&E on November 18, 2005. On November 28, 2005, pursuant to Rule 51.1 of the Commission's rules, PG&E provided notice to all parties of a conference for the purpose of discussing this Settlement Agreement.

SETTLEMENT AGREEMENT

As a compromise among their respective litigation positions, and subject to the recitals and reservations set forth in this Settlement Agreement, the Parties hereby agree to fully resolve the issues in PG&E's Application, as follows.

1. Cost Effectiveness Determination and Issuance of CPC&N

The completion and operation of CC8 is needed, cost-effective and beneficial to customers, and it is appropriate for the Commission to grant a Certificate of Public Convenience and Necessity for PG&E to resume construction and complete CC8.

2. Approval of CC8 Asset Transfer Agreement

The Commission should approve the CC8 Asset Transfer Agreement and the other ancillary transactions included or intended to be addressed in conjunction with the CC8 Asset Transfer Agreement, without modification or conditions, and should take any other actions or give such permissions as are necessary and within its authority for PG&E to execute and perform its obligations under the ATA and its ancillary agreements.

3. CC8 Initial Revenue Requirement

The estimated initial annual non-fuel revenue requirement for CC8 shall be $67,475,000. This revenue requirement will begin to accrue in the Utility Generation Balancing Account (UGBA) as of the date of commercial operation of CC8, and except to the extent the cost of CC8 is revised as described below, the revenue requirement will be included in retail rates on January 1 of the year following commercial operation of CC8. The UGBA balance shall continue to be recovered in rates until new base generation rates incorporating the revenue requirement for CC8 are made effective through PG&E's first General Rate Case (GRC) subsequent to commercial operation. This initial revenue requirement will provide for recovery of the non-fuel costs of owning and operating CC8. It will be trued up to actual capital costs in the GRC subsequent to commercial operations, subject to the thresholds, sharing, and other capital adjustments described in Sections 4, 5, 6, and 7 of this Settlement Agreement. PG&E is authorized to establish balancing accounts to track the difference between the adopted revenue requirement and the revenue requirement as trued up. Fuel costs, including commissioning energy costs, will be recovered through the Energy Resources Recovery Account (ERRA).

4. CC8 Initial Capital Cost

The reasonable and prudent estimate of the initial capital cost of completing CC8 for commercial operation on a cost of service basis shall be $295 million ("reasonable and prudent estimate"). The following provisions govern the establishment and recovery of the initial capital costs of CC8:

4.1 If the actual capital cost of CC8 is $305 million or less (threshold 1) , PG&E shall be entitled to include in ratebase and recover in rates the actual capital cost of completing CC8 without any after-the-fact reasonableness review.

4.2 If the actual capital cost of CC8 is more than $305 million but less than $345 million (threshold 2), PG&E shall be entitled to include in ratebase and recover in rates $305 million plus ninety percent of the actual capital cost of completing CC8 that is in excess of $305 million without any after-the-fact reasonableness review.

4.3 If the actual capital cost of CC8 is $345 million or more (threshold 3), PG&E shall be entitled to include in ratebase and recover in rates (i) $305 million plus (ii) $36 million (ninety percent of $40 million) plus (iii) any actual costs of completing CC8 in excess of $345 million that the Commission authorizes PG&E to recover following a reasonableness review of the excess amounts.

4.4 Each of the dollar thresholds specified in sections 4.1, 4.2 and 4.3 are subject to adjustment if the CC8 initial capital costs are increased as specified in Section 5 or 6.

5. Adjustments for Delays in Construction

If construction of CC8 does not recommence by September 2006 as a result of any action or inaction by a governmental authority including the failure to timely issue the authorizations described in the last two sentences of this section, the estimate of costs and other thresholds described in paragraph 4 will increase by $932,000 per month, and the revenue requirement will increase by $205,000 per month, until construction recommences, up until June 30, 2008. This adjusted estimate and revenue requirement shall be used in place of the reasonable and prudent

estimate and revenue requirement stated in paragraph 4, and the dollar thresholds stated in sections 4.1 through 4.3 shall be increased by an equal amount to reflect the increase in capital costs. The following governmental authorizations with respect to CC8 will be timely if each one is issued in sufficient time to permit all of them to be issued on or before July 1, 2006: (i) update of Application for Certification (AFC) from California Energy Commission (CEC), (ii) extension of the Authority to Construct (ATC), (iii) renewal of National Pollutant Discharge Elimination System Permit (NPDES), (iv) an appended Biological Opinion from United States Fish and Wildlife Service (USFWS), (v) update, if necessary, to Biological Opinion issued by National Marine Fisheries Service (NMFS), (vi) clarifications, if necessary, to authorizations issued by the California Department of Fish and Game (CDFG), and (vii) general stormwater permit for Construction. The approval by the Commission of the CC8 Asset Transfer Agreement and the transactions contemplated therein without material changes, modifications or conditions will be timely if made on or before June 15, 2006.

6. Adjustments Due to Material Changes to Project and Force Majuere

In addition to the adjustment in Section 5, PG&E is authorized to increase the reasonable and prudent estimate and the associated dollar thresholds in Sections 4.1, 4.2 and 4.3, and the revenue requirement, if the costs associated with CC8 are increased as a result of any material changes to the project (as defined by the project and associated permits and permit requirements that were certified by the CEC on May 30, 2001) that are required to implement or comply with any permits, approvals, or conditions thereof, or the issuance of any order, judgment, award, or decree which affects the project. In such an event, PG&E will first meet and confer with the other settling parties and the Commission staff, and they will use best efforts to determine the increase in costs. PG&E will file an expedited advice letter with the Commission setting forth the basis of the increase in costs and resulting revenue requirements such that the Commission shall provide a decision on the filing prior to June 30, 2008, the date PG&E must either close the transaction or receive the alternate consideration. Notwithstanding anything else in this Settlement Agreement, however, PG&E reserves the right to request any material increase in its

costs and resulting revenue requirements as a result of any force majeure, that is, (i) landslide, lightning, earthquake, storm, hurricane, flood, or other acts of nature; (ii) transportation accidents; (iii) strikes or other labor disturbances such as lock-outs, work slow-downs, sick-outs, informational picketing, and any other labor action that adversely affects construction of the project, (iii) riots, terrorism, war, civil disturbances or sabotage; or (iv) changes in law, subject to review for reasonableness.

7. Adjustments to Revenue Requirement As of Commercial Operations

PG&E shall file an advice letter before the date of commercial operation of the project with revenue requirements that reflect any adjustments to its costs that are authorized in this Settlement Agreement, as well as the then-current cost of capital, franchise and collectibles factors, property tax, and the amount of income tax paid on the transfer of the assets, and ratemaking for Federal or state income tax as determined by the Commission. In the first GRC after commercial operations, PG&E will update its revenue requirement prospectively to reflect new estimates of CC8's revenue requirements.

8. Adjustment for Long Term Service Agreement (LTSA)

PG&E is authorized to file an advice letter in the event that its payments under the LTSA for CC8 exceed the estimates in its forecast of operation and maintenance costs if starts-based criteria accelerate major maintenance for the equipment covered by the LTSA, provided, however, that the Commission may review the reasonableness of such cost increases in an after-the-fact review.

9. Adjustment to Revenue Requirement for Transmission Upgrades

In the event Contra Costa 8 is required to finance a transmission upgrade, PG&E has the right to file an advice letter adjusting the revenue requirement to allow PG&E to collect the difference between the interest rate used to reimburse CC8 for its finance costs and PG&E's then-authorized weighted average cost of capital on a pre-tax basis.

10. Tax Regulatory Asset

PG&E is authorized to establish a tax regulatory asset to be included in rate base to recover the cost of Federal and State income tax liabilities that are incurred when PG&E receives the CC8 assets. This tax regulatory asset will be reduced periodically by tax benefits attributable to PG&E's tax depreciation of the CC8 assets, or recovery of tax basis through the sale of such assets. Furthermore, the Commission should authorize a tax tracking account to track the tax effects, including interest, related to any differences between the amount and timing of the taxes as initially reported, and the amount and timing that are ultimately resolved with the taxing authorities. This tracking account would take into account how these differences would be reversed later on by additional tax depreciation or deductions.

11. Nonbypassable Charge

PG&E is authorized to recover any above-market costs of CC8 for the 30 year life of the project. PG&E is authorized to collect a nonbypassable charge for any such costs. The parties agree that no other issues relating to the nonbypassable charge, including but not limited to the calculation, application, and allocation of nonbypassable charges will be resolved or otherwise addressed in this proceeding. The parties agree that the workshops in the Direct Access Suspension proceeding (OIR 02-01-011) would be an appropriate forum for addressing any outstanding issues relating to the calculation, application and allocation of the nonbypassable charge authorized by D.04-12-048.

12. Mirant Finding Regarding Water Corporation Status

By approval of this Settlement Agreement, the Commission finds that, in providing water to PG&E under the Shared Services Agreement of the ATA, Mirant Delta LLC is not dedicating any facilities to public service and is not a water corporation within the meaning of Public Utilities Code Section 241 or a public utility within the meaning of Public Utilities Code Section 216.

13. Decommissioning and Environmental Remediation

PG&E is authorized to recover in base rates any costs associated with future decommissioning and environmental remediation of the CC8 site. PG&E will include an estimate of such costs in its detailed decommissioning study to be filed in the next GRC following commercial operation of CC8 and will take into account any amounts already recovered in the depreciation reserve for the period prior to PG&E's divestiture of the Contra Costa plant to Mirant.

14. Recovery of External Transaction Costs

The parties agree that PG&E is authorized to recover reasonable transaction costs associated with CC8 in accordance with Resolution E-3914, through a debit to the ERRA balancing account in the next ERRA forecast application following Commission approval of the Settlement Agreement. The parties reserve the right to review and comment on the amount of such costs at that time.

15. Reservation Regarding Performance Requirements

The Parties agree that nothing in this agreement addresses whether or not the Commission will adopt performance requirements, standards or incentives for the heat rate, availability, and operations of CC8. Any Party may seek Commission approval of such requirements, standards or incentives in the course of an appropriate proceeding, such as PG&E's 2007 GRC. None of the settling parties are bound to seek, support or oppose such measures in any future proceeding; provided, however, that PG&E reserves the right to request an adjustment to its revenue requirement in such proceeding if the adoption of such requirements, standards or incentives would have a material effect on CC8 costs.

RESERVATIONS

16. The Parties agree that this Settlement Agreement represents a compromise, not agreement or endorsement of disputed facts and law presented by the Parties in the CC8 Application, and that it settles all material issues of fact in the proceeding.

17. The Parties shall jointly request Commission approval of this Settlement Agreement. The Parties additionally agree to actively support prompt approval of the Settlement

Agreement. Active support shall include briefing, comments on the proposed decision, written and oral testimony if testimony is required, appearances, and other means as needed to obtain the approvals sought. The Parties further agree to participate jointly in briefings to Commissioners and their advisors as needed regarding the Settlement Agreement and the issues compromised and resolved by it.

18. This Settlement Agreement embodies the entire understanding and agreement of the Parties with respect to the matters described herein, and, except as described herein, supersedes and cancels any and all prior oral or written agreements, principles, negotiations, statements, representations or understandings among the Parties.

19. The Settlement Agreement may be amended or changed only by a written agreement signed by the Parties.

20. The Parties have bargained earnestly and in good faith to achieve this Settlement Agreement. The Parties intend the Settlement Agreement to be interpreted and treated as a unified, interrelated agreement. The Parties therefore agree that if the Commission fails to approve the Settlement Agreement as reasonable, and adopt it unconditionally and without modification, including the findings and determinations requested herein, any Party may in its sole discretion, elect to terminate the Settlement Agreement. The Parties further agree that any material change to the Settlement Agreement shall give each Party in its sole discretion, the option to terminate the Settlement Agreement. In the event the Settlement is terminated, the Parties will request that the unresolved issues in the CC8 Application be heard and briefed at the earliest convenient time.

21. This Settlement Agreement represents a compromise of respective litigation positions and is not intended to establish binding precedent for any future proceeding. The Parties have assented to the terms of this Settlement Agreement only for the purpose of arriving at the compromise embodied herein.

22. Each of the Parties hereto and their respective counsel and advocates have contributed to the preparation of this Settlement Agreement. Accordingly, the Parties agree that

no provision of this Settlement Agreement shall be construed against any Party because that Party or its counsel drafted the provision.

23. This document may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

24. This Settlement Agreement shall become effective among the Parties on the date the last Party executes the Settlement as indicated below.

In witness whereof, intending to be legally bound, the Parties hereto have duly executed this Settlement Agreement on behalf of the Parties they represent.

PACIFIC GAS AND ELECTRIC COMPANY

By: _____

Name: _____

Date: _____

THE OFFICE OF RATEPAYER ADVOCATES

By: _____

Name: _____

Date: _____

THE UTILITY REFORM NETWORK

By: _____

Name: _____

Date: _____

CALIFORNIA UNIONS FOR RELIABLE ENERGY

By: _____

Name: _____

Date: _____

(END OF ATTACHMENT A)