STATEMENT OF COMMISSIONER WOOD ON THE PG & E BANKRUPTCY

Today I am responding to the proposals of my colleague President Peevey and ALJ Robert Barnet addressing a settlement entered into by our staff and PG&E to resolve PG&E's bankruptcy filing. I am filing an Alternate Decision.

I want to say at the outset that I am prepared to approve the basic framework of the settlement as President Peevey has outlined it in his Alternate Number 2. It is vitally important that PG&E emerge from bankruptcy and resume a cooperative, responsive relationship with its customers and the state of California as regulated utility.

However, I want to add that modifications which I have described in detail in my Alternate Decision must be made to the Settlement Agreement itself in order for it to be just and reasonable, lawful and supportable, in my opinion.

I also want to commend my colleague Loretta Lynch, whose leadership and courage while Commission President to raise rates to unprecedented levels during the energy crisis while relentlessly pursuing the malefactors, preserved the financial integrity of SDG&E, provided the basis for the full financial rehabilitation of Southern California Edison, and has laid the basis for the soon-to-be realized resolution to PG&E's woes.

The Proposed Settlement fails to fully appreciate, in my estimation and in the arguments of every consumer participant, the pain of those high rates and the power of the extraordinary cash flows they have made possible. The bottom line is that PG&E does not need as much money as the settlement would give them, given what they have already received through the high rates since early 2001, in order to return to financial stability and capability.

Edison has had the same high rates as PG&E. Pursuing fiscal discipline and paying attention to business, Edison paid off its all of its energy crisis debts last July, has reduced its rates by 13 %, has received investment grade credit ratings from all of the rating agencies, has sent an extraordinary dividend to its parent and is poised to bring on a major new powerplant. At the conclusion of the Power Exchange bankruptcy, it may receive hundred of millions of dollars in refunds.

PG&E took a different tack, filing bankruptcy to pursue a risky business strategy, using its cash on $450 million in litigation costs, positioning itself to refinance its entire company by retiring secured debt, and withholding payment of its PX and ISO obligations. Since we are fully committed to rehabilitating PG&E, this means that we are going to have to ask ratepayers to do more for PG&E then was done for SCE, as hard as that may be to swallow. ORA suggests that in addition to keeping current rates in effect

through the end of the year, we would have to maintain them for an additional 12 to 18 months (17 to 25 months longer than SCE).

Like President Peevey and PG&E, I want to move faster – both to drop rates and to rehabilitate PG&E -- and so we are prepared to provide a financing mechanism – a regulatory asset – to accelerate the additional ratepayer contribution.

Where we differ most is in the size and duration of that regulatory asset, and the continuing ratepayer burden it represents. My Alternate Decision pegs that ratepayer contribution at $2.3 billion over 4 years, after which we return to cost of service rates. The Proposed Settlement and President Peevey's Alternate cost ratepayers $5.3 billion over 9 years. Both proposals can demonstrate compliance with all quantitative measures affecting credit ratings. Both can demonstrate substantial rate decreases that result from substituting the regulatory asset revenue requirement for "head room" in 2004.

Who is right ? These are factual matters and possible matters for back and forth discussion. I want to introduce two important concepts. First, the settlement is not a black box. Second, I am opposed to mortgaging the future with extended credit card financing of our past debts. I urge my colleagues to put this behind us as quickly as we can without a long-term ratepayer commitment.

Because the federal Settlement Judge, with his injudicious "gag" order, has for months obstructed my ability to understand the parameters at work in the negotiations that led up to the Proposed Settlement and has made it difficult to acquire, understand and appreciate much of the information that normal due diligence has turned up in the post-settlement regulatory process, I have had little time or opportunity to explore compromises or alternatives responsibly. The Judge's action makes the process from here on out more difficult than it needed to be in arriving at sensible conclusions about these quantitative matters.

Finally, I want to emphasize that the Commission and PG&E must cooperate fully and completely in PG&E's rehabilitation. This includes on the part of both entities a recognition that irresponsible or negative actions either by PG&E's management or PG&E Corporation, the holding company, can blunt the positive effect that high rates have on PG&E's credit. I am insisting that PG&E agree that the Commission be able to compel divestiture if that is necessary to protect PG&E's credit.

I am ready to ask ratepayers to do their part. PG&E must now step up.

My alternate is on the PUC's website at
http://www.cpuc.ca.gov/PUBLISHED/COMMENT_DECISION/32158.htm