California Public Utilities Commission

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News Release

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Judge Announces Settlement to End PG&E Bankruptcy

California Public Utilities Commission Staff, PG&E reach agreement

SAN FRANCISCO (June 19, 2003) – U.S. Bankruptcy Judge Randall J. Newsome announced Thursday that a proposed settlement agreement has been reached by the staff of the California Public Utilities Commission and Pacific Gas and Electric Company to end PG&E's bankruptcy.
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Judge Newsome announced the settlement at a press conference held jointly with representatives of the CPUC, PG&E, and the Official Committee of Unsecured Creditors. "The settlement is a good one," said Judge Newsome, who called it "very much in the public interest." Judge Newsome added that the judicially-sponsored settlement is designed to serve the best interests of consumers, the state, and the environment.

"I'd like to compliment the judge for bringing the parties together and getting them to this point, where PG&E has agreed not disaggregate," CPUC President Michael R. Peevey said in a statement concerning the announcement. "The Commission will now study the settlement agreement diligently during a rigorous review and public hearing process that will begin as soon as possible."

The settlement agreement's highlights include the following:

- PG&E will abandon its effort to divide the utility into four parts, with three of them under federal control. Instead, the utility will remain intact under CPUC regulation.

- The CPUC staff projects that rates will come down starting January 1, 2004, by approximately $350 million per year. Rates are projected to come down by about half a cent (from their current 13.87 cents/kwh) on January 1, 2004, and continue falling to about 12.8 cents by 2008.

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- PG&E will dedicate 140,000 acres of watershed lands, valued at approximately $300 million, to maintain its hydroelectric operations and to be used in perpetuity for public purposes. PG&E will establish a non-profit corporation to oversee the lands and the environmental enhancements, and fund the corporation with $70 million.

- A $15 million venture capital fund will be established to foster and promote new, clean energy technologies.

- Creditors will be paid in full.

- The settlement will end the litigation and allow the parties to move ahead. It would allow PG&E to emerge from bankruptcy as an investment-grade, credit-worthy operating company that will stay intact under state control, enhancing the State's ability to manage California energy policy.

"The parties recognize that reliable electric and gas service is of the utmost importance to the safety, health and welfare of California's citizenry and economy," the settlement agreement states.

PG&E filed for bankruptcy protection on April 6, 2001. The company submitted its original plan of reorganization in September 2001, and the CPUC filed its alternative plan in April 2002. A trial on the competing plans before U.S. Bankruptcy Court Judge Dennis Montali began on November 18, 2002. On March 5, 2003, Judge Montali ordered the parties to hold settlement meetings beginning March 10 under the supervision of Judge Newsome. Those talks resulted in today's agreement.

The settlement agreement is subject to two independent processes of review – one by the CPUC, and one by the Bankruptcy Court. The CPUC will review the agreement in a formal hearing process to be conducted over the next three to five months before a vote is taken by the Commission on whether to adopt it. As for the Bankruptcy Court, the parties' agreed-upon bankruptcy timeline is as follows: PG&E will file the agreed-upon plan of reorganization and accompanying disclosure statement by the end of June. The parties will request that Judge Montali hold a hearing on the disclosure statement in late July, and after creditors have an opportunity to vote on the plan, to hold a confirmation hearing in late October.

Full text of the proposed settlement will be available at 5 p.m. today at
www.solem.com/cpucpgesettlement.pdf