

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM**

Meeting: February 6, 2007

**REQUEST APPROVAL OF APPOINTMENTS OF AGENTS FOR THE REMARKETING
OF \$345,000,000 CPCFA POLLUTION CONTROL REFUNDING BONDS,
PG&E 2004 SERIES A, B, C, & D**

Prepared by: Michael Smith

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| Applicant: Pacific Gas and Electric Company and/or its Affiliates (“Company” or “PG&E”) | Outstanding Bond Issue: \$345,000,000 |
| Project: San Luis Obispo | Date Requested: February 6, 2007 |
| Location: (San Luis Obispo County), CA | Prior Actions: FR No. 431 approved 05/25/04 IR No. 83-21 approved 12/16/83 |

Type of Business: PG&E is a public utility incorporated in California in 1905. It is engaged principally in the business of supplying electric and natural gas service throughout most of Northern and Central California. The Company owns and operates two generating units at the Diablo Canyon Nuclear Power Plant. PG&E is subject to extensive regulatory oversight by the Federal Energy Regulatory Commission (FERC), the Nuclear Regulatory Commission (NRC), the California Public Utilities Commission (CPUC), and the California Energy Commission (CEC).

Background Information: The last action by the Board with respect to PG&E was at the December 12, 2006 meeting, for which PG&E submitted an application for the purpose of requesting an extension of an existing Initial Resolution (IR No. 83-21) in order to preserve its right to issue tax-exempt bonds for the \$200,000,000 remaining on this IR. The original Initial Resolution No. 83-21 (hereinafter “1983 IR”) adopted on December 16, 1983, induced qualified project components for the company’s two generating units at the Diablo Canyon Nuclear Power Plant and authorized the issuance of \$107,425,000 in bonds. Subsequent to the original adoption and through actions by the Board, the 1983 IR was amended to increase the amount to \$1,410,000,000, and it was extended to December 31, 2006. During the period between 1983 and 1993, PG&E continued to complete induced projects at its Diablo Canyon Nuclear facility and, as volume cap became available, the Company requested and received Authority Board approval for several Final Resolutions. In 1985, 1987, 1992 and 1993, the Authority issued bonds to finance qualified solid waste disposal projects as well as certain sewage disposal and air and water pollution control projects at Diablo Canyon for a cumulative total of approximately \$1,210,000,000, leaving a balance of \$200,000,000 available under the 1983 IR.

In preparation for the December 12, 2006 Board meeting, counsel advised CPCFA staff that, if the outstanding initial resolution was allowed to lapse, the Company might not be able to reinstate the IR and continue the lookback from 1983, when federal tax law allowed tax-exemption for a much broader category of qualified projects. Because federal tax law changed significantly in 1986, many of the components eligible for tax exempt bond financing at the time of the 1983 IR would not be eligible under current tax law (particularly air and water pollution control projects). Without a full legal and tax analysis for a proposed bond issuance, counsel could not give absolute advice on how the various components of the Project proposed in the IR would be treated if the IR was allowed to lapse and then was reinstated by Board action on some future date.

As part of its application for an extension of the 1983 IR, PG&E submitted a completed legal questionnaire along with its most recent Securities and Exchange Commission (SEC) filings. CPCFA staff believed that there was not time to fully vet the legal matters disclosed (See Attachment A) and the policy matters presented by the Diablo Canyon Nuclear Power Plant projects before the December

12, 2006 Authority Board meeting, which was the last meeting before the expiration of the 1983 IR on December 31, 2006. CPCFA staff believed it would be appropriate to conduct a policy analysis for the Board pursuant to procedures adopted by the Board in 2005 for proposed projects that employ new technologies and proposed projects from industries that typically do not request CPCFA financing. However, given the time constraints, CPCFA staff decided to recommend a one-year (as opposed to a three-year or longer) extension of PG&E's 1983 IR solely for the purpose of preserving the 1983 look-back for federal tax-exempt purposes. Staff committed to a full legal and policy review if and when PG&E requests further action on this IR. On December 12, 2006, the Board approved the staff's recommendation and the 1983 IR received a one-year extension.

Current Request: Currently, PG&E requests that the Board approve the appointment of agents for the mandatory tender and the remarketing of \$345,000,000 California Pollution Control Financing Authority Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 2004 Series A, B, C, and D. This is not a request for new or additional financing or for an extension of previously approved financing requests; rather, this is a request for approval of agents to carry out a mandatory tender and consequent remarketing pursuant to the requirements and provisions of bonds that were issued in June 2004.

Discussion: The current request was received on January 5, 2007, and it is occasioned by the mandatory tender on June 1, 2007 and consequent remarketing of bonds originally issued by CPCFA in 1992 and 1993. In February 2004, the Authority Board approved an amendment to the bond documents that allowed PG&E to purchase these bonds rather than redeem them in response to events triggered by restructuring under bankruptcy. In May 2004, the Authority Board approved the refunding of these bonds, and they were reissued to the public market on June 29, 2004 at an initial three-year term interest rate with a mandatory tender on June 1, 2007. Due to notice requirements, PG&E must begin preparations for the mandatory tender and remarketing now.

At the time of the refunding, the bonds were insured by FGIC and were further enhanced by mortgage bonds ("Support Bonds") issued by PG&E as part of its restructuring under bankruptcy. Pursuant to the bond documents, PG&E retained the right to cancel the Support Bonds if, among other conditions, the Company obtained long-term, unsecured ratings of at least BBB from S&P and Baa2 from Moody's. On April 22, 2005, the Company was assigned these required ratings and requested (and obtained) the cancellation of the Support Bonds. Despite the mandatory tender and remarketing of the bonds, the bonds will continue to be insured by FGIC pursuant to its bond insurance policy which was issued when the bonds initially were delivered in June 2004.

Because the bonds were issued at a three-year term interest rate with a mandatory tender on June 1, 2007, PG&E must prepare for the mandatory tender and remarketing of the bonds on June 1, 2007 in accordance with the provisions of the Indentures under which the bonds were issued. With respect to the remarketing itself, PG&E can remarket the bonds in various modes, i.e., Auction Rate, Daily Rate, Flexible Rate(s), Weekly Rate, or another Term Rate, in accordance with the terms of the Indentures. The Authority restricted the remarketing to Qualified Institutional Buyers in minimum denominations of \$250,000 if they are rated less than A- but equal or higher than BBB- by Standard & Poors and less than A3 but equal or higher than Baa3 by Moody's. If the bonds are rated less than BBB- by Standard & Poors and less than Baa3 by Moody's, the bonds may be remarketed only on terms approved by the Authority. In this case, the bonds are rated AAA/Aaa due to the bonds being insured by the Financial Guaranty Insurance Company (FGIC) insurance policy, and therefore PG&E will select from one of the authorized interest rate modes, without such remarketing restrictions, closer to the mandatory tender and remarketing date of June 1, 2007.

The Indentures require that the Authority approve the appointment of various agents associated with a remarketing. Regardless of the interest rate mode, PG&E will need to appoint a Tender Agent or Agents and a Remarketing Agent or Agents for each series of bonds. PG&E requests that the Authority approve the appointment of Deutsche Bank as Tender Agent. Deutsche Bank is currently the Trustee for the bonds.

PG&E requests that the Authority approve the appointment of the following as Remarketing Agents: JP Morgan Securities, Inc., Citigroup Global Markets, Inc., Morgan Stanley, Goldman, Sachs & Company, and E.J. De La Rosa & Company, Inc. PG&E will select one or more of these entities to act as Remarketing Agent. Depending on the interest rate mode chosen, PG&E will assign a single or multiple Remarketing Agents to each bond series.

Finally, if one or more series of bonds are adjusted to the Auction Rate mode, PG&E must appoint an Auction Agent and a Market Agent. PG&E requests that the Authority approve the appointments of Deutsche Bank and The Bank of New York as its Auction Agents (one per bond series). Deutsche Bank and The Bank of New York serve as Auction Agents on existing PG&E-related auction rate securities. PG&E requests that the Authority approve the appointment of the ~~flowing~~ following as Market Agents: JP Morgan Securities, Inc., Citigroup Global Markets, Inc., Morgan Stanley, Goldman, Sachs & Company, and E.J. De La Rosa & Company, Inc. PG&E will select one or more of these entities to acts a Market Agent for each bond series.

Financing Team:

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| Remarketing Agents: | JP Morgan Securities, Inc., Citigroup Global Markets, Inc., Morgan Stanley, Goldman, Sachs & Company, E.J. De La Rosa & Company, Inc. |
| Tender Agent: | Deutsche Bank |
| Market Agents: | JP Morgan Securities, Inc., Citigroup Global Markets, Inc., Morgan Stanley, Goldman, Sachs & Company, E.J. De La Rosa & Company, Inc. |
| Auction Agent: | Deutsche Bank and The Bank of New York |
| Bond Counsel: | Sidley Austin, LLP |
| Issuer's Counsel: | Law Office of Leslie M. Lava and the California Attorney General's Office |
| Bond Structure: | Multi-modal including Auction, Daily, Weekly, Flexible and Term Interest Rate Modes. |

Legal Questionnaire: For the current request, the Company submitted an updated legal questionnaire. The disclosures identify outstanding litigation arising from the Company's bankruptcy and five other significant legal matters. See Attachment A.

Staff Recommendation: PG&E's request is not a request for new or additional financing or for an extension of previously approved financing requests. Rather, this is a request for approval of agents to carry out a mandatory tender and consequent remarketing pursuant to the requirements and provisions of bonds that were issued in June 2004. Therefore, staff does not believe that a full legal or policy review is necessary for the Board to act on this request. Given that (1) the 2004 refunding bonds were issued with the June 1, 2007 mandatory tender as one of the features and thereby this remarketing was contemplated at the time of issuance and was provided for in the bond documents approved by the Authority, (2) the approval of the appointment of agents for a mandatory tender and consequent remarketing for existing bonds is a relatively administrative action and (3) the bonds are rated AAA/Aaa due to coverage by a FGIC insurance policy issued at the time the bonds were marketed and such insurance provides protection for bondholders, staff recommends approval of the request to appoint agents as specified and as necessary to carry out the mandatory tender and consequent remarketing on June 1, 2007.

ATTACHMENT A

As part of its November 2006 application for extension of IR No. 83-21 and its January 5, 2007 request, PG&E submitted a completed legal questionnaire with its most recent SEC filings and its most recent shareholder report. These documents disclosed the following outstanding legal matters:

1. Bankruptcy related litigation. Two former CPUC commissioners who did not vote to approve the Settlement Agreement have filed an appeal of the Bankruptcy Court's confirmation order. It is uncertain when the Ninth Circuit will issue a decision on this appeal. The Company believes that this suit will be dismissed.
2. PG&E suit against the CPUC. The Company filed suit requesting a declaration that the wholesale electricity costs that the Utility has incurred are recoverable in retail rates. The Company has agreed to dismiss this suit as part of the bankruptcy Settlement Agreement. This suit remains outstanding pending the outcome of the bankruptcy related litigation above.
3. Diablo Canyon Power Plant. The Company appealed a 2000 Central Coast Regional Water Quality Control Board draft cease and desist order alleging that the plant's discharge was "not protective of beneficial uses." While a settlement with the Central Coast Regional Water Quality Control Board was executed in 2003, the Central Coast Regional Water Quality Control Board has not renewed the Company's permit since July 2003. This permitting matter has not yet been resolved.
4. Attorney General Complaints. In 2002, the Attorney General filed complaints in the San Francisco Superior Court against the Company for violations of Business and Professions Code Section 17200 (governing transfers of funds between the Company and its parent holding company). There have been significant developments in this lawsuit and related actions at the Superior Court, the District Court, the Bankruptcy Court and the Ninth Circuit. The Ninth Circuit has remanded the case back to the Superior Court and the Company has filed a request for rehearing with the Ninth Circuit. The underlying allegations regarding violations of §17200 have not yet been resolved.
5. Compressor Station Chromium Litigation. There are twelve civil suits representing 1200 individual plaintiffs pending against the Company relating to alleged chromium contamination. The Company has entered into a settlement agreement for approximately 1100 of these plaintiffs. The remaining cases are not yet resolved and the Company has set aside a \$314 million reserve in its financial statements with respect to this litigation.
6. CPUC Investigation. The CPUC is currently investigating an alleged violation of tariffs related to delayed and estimated bills. Should the CPUC determine that the Company violated applicable tariffs or the CPUC's orders or rules, the CPUC may order the Company to refund amounts collected in violation of tariffs to customers.

**RESOLUTION OF THE
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
APPROVING APPOINTMENT OF AGENTS FOR THE
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
POLLUTION CONTROL REFUNDING REVENUE BONDS
(PACIFIC GAS AND ELECTRIC COMPANY) 2004 SERIES A, B, C AND D**

February 6, 2007

WHEREAS, the California Pollution Control Financing Authority (the “Authority”) adopted its Resolution 431 on May 24, 2004 authorizing the issuance of California Pollution Control Financing Authority Pollution Control Refunding Revenue Bonds (Pacific Gas and Electric Company) 2004 Series A, B, C and D (the “2004 Bonds”); and

WHEREAS, the 2004 Bonds were issued on June 29, 2004, in the principal amount of \$345,000,000 pursuant to four separate Indentures of Trust each dated as of June 1, 2004 (the “2004 Indentures”), each by and between the Authority and Deutsche Bank Trust Company Americas, as trustee; and

WHEREAS, proceeds of the 2004 Bonds were used to make a loan to Pacific Gas and Electric Company (the “Borrower”) for the purpose of prepaying the loan of proceeds of the Authority’s Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1992 Series A, Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1992 Series B, Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1993 Series A and Pollution Control Revenue Bonds (Pacific Gas and Electric Company) 1993 Series B to the Borrower for the purpose of financing a portion of the costs of acquiring, installing, constructing or reconstructing the Main Circulating Water System and the Solid Radwaste Facility and certain air or water pollution control, solid waste disposal and sewage facilities, all as more particularly described in four separate Loan Agreements each dated as of June 1, 2004 (the “2004 Loan Agreements”) each between the Borrower and the Authority; and

WHEREAS, in connection with each series of the 2004 Bonds, the Borrower has caused to be delivered to the Trustee, as a Credit Facility under the applicable 2004 Indenture, a financial guaranty insurance policy of Financial Guaranty Insurance Company, a New York stock insurance company (doing business in California as “FGIC Insurance Company”), insuring the scheduled payment of the principal of and interest on such 2004 Bonds and the payment of the redemption price of such 2004 Bonds upon a redemption of such 2004 Bonds pursuant to Section 4.01(b)(2) of the applicable Multi-Mode Annex upon a Determination of Taxability; and

WHEREAS, each series of the 2004 Bonds is currently in an initial Term Rate Period ending on May 31, 2007 and is subject to mandatory tender on June 1, 2007; and

WHEREAS, the Borrower will cause each series of the 2004 Bonds to be remarketed on June 1, 2007 into one of the various interest rate modes permitted under the applicable 2004 Indenture; and

WHEREAS, the 2004 Indentures provide that the 2004 Bonds may be converted to bear interest at a Daily Rate, Weekly Rate, Flexible Rate or Auction Rate or continue to bear interest at a Term Rate; and

WHEREAS, the 2004 Indentures provide for the appointment of various agents in connection with the interest rate modes permitted thereunder; and

WHEREAS, the Borrower has requested that the Authority approve the appointment of such various agents in connection with the interest rate modes permitted under the 2004 Indentures.

NOW, THEREFORE, BE IT RESOLVED by the California Pollution Control Financing Authority as follows:

Section 1. The Authority finds and determines that the foregoing recitals are true and correct.

Section 2. The Authority hereby approves the appointment by the Borrower of Deutsche Bank as the tender agent for each series of the 2004 Bonds.

Section 3. The Authority hereby approves JPMorgan, Citigroup, Morgan Stanley, Goldman, Sachs & Co., and E.J. De La Rosa & Co., Inc. to serve as remarketing agent(s) for the 2004 Bonds and the appointment by the Borrower of one or more from this list as the remarketing agent(s) for each series of the 2004 Bonds.

Section 4. The Authority hereby approves Deutsche Bank and The Bank of New York to serve as an auction agent for the 2004 Bonds and the appointment by the Borrower of one from this list as the auction agent for each series of the 2004 Bonds.

Section 5. The Authority hereby approves JPMorgan, Citigroup, Morgan Stanley, Goldman, Sachs & Co., and E.J. De La Rosa & Co., Inc. to serve as a market agent for the 2004 Bonds and the appointment by the Borrower of one from this list as the market agent for each series of the 2004 Bonds.

Section 6. The Authority hereby approves the distribution of any amendment or supplement to the official statement for the 2004 Bonds and hereby authorizes and directs the Executive Director or Deputy Executive Director of the Authority, jointly and severally, to execute and deliver any and all documents and certificates in connection with the remarketing of the 2004 Bonds on June 1, 2007, as such officer, with the advice of the Attorney General, or such other counsel as the Authority shall select, deems necessary or advisable in order to consummate such remarketing and otherwise effectuate the purposes of this resolution.

Section 7. This resolution shall take effect immediately upon its passage.