

ELECTRIKGRID NEWS

<http://www.Electrikgrid.com>

Jack Allen. Vol 1 # 3 September 21, 2001

CHAPTER 11 REORGANIZATION

Pacific Gas & Electric's Plan

The California energy market fall-out continues with PG&E announcing a plan for reorganization under Chapter 11 of the U. S. Bankruptcy Law. This plan is subject to approval by the Bankruptcy Court. The following information was made available to the public by PG&E on September 20, 2001.

Pacific Gas and Electric Company and PG&E Corporation File Plan of Reorganization Plan pays claims in full, does not call for retail rate increases or State bailout. PG&E Corporation (NYSE: PCG) and its utility unit Pacific Gas and Electric Company jointly filed a Plan of Reorganization in U.S. Bankruptcy Court today that enables Pacific Gas and Electric Company to pay all valid creditor claims in full and emerge from Chapter 11 bankruptcy proceedings. The official creditors' committee is said to support the plan.

The plan reorganizes Pacific Gas and Electric Company and PG&E Corporation into two separate, stand-alone companies no longer affiliated with one another. The reorganized Pacific Gas and Electric Company (DISCO/REDCO) will continue to own and operate the existing retail electric and natural gas distribution system. The electric generation (GENCO), electric grid transmission (TRANSCO), and natural gas transmission operations currently

under Pacific Gas and Electric Company will be part of PG&E Corporation. The common shares of the reorganized Pacific Gas and Electric will be distributed to PG&E Corporation shareholders.

Corporation will be organized as follows: Pacific Gas and Electric Company will be a separate, regulated California corporation focused on providing electric and natural gas distribution service to its customers in Northern and Central California (DISCO/REDCO). It will hold 70 percent of the current utility assets (in terms of book value) and will employ 16,000 people. Pacific Gas and Electric Company will continue to provide the full range of utility services to one out of every 20 Americans.

PG&E Corporation, in addition to its existing National Energy Group business, will have three new businesses that will own and operate the electric generation (GENCO), electric transmission (TRANSCO) and gas transmission operations formerly under Pacific Gas and Electric Company.

The new electric generation business (GENCO) will be a California company established to own and operate the hydroelectric and nuclear generation assets and associated lands, and to assume the power contracts with irrigation districts, now held by the utility. In total, the unit will have approximately 7,100 megawatts of

generation. The facilities will be operated in accordance with all current FERC and Nuclear Regulatory Commission licenses, and in keeping with sound environmental stewardship policies. The generating business will sell its power back to the reorganized Pacific Gas and Electric Company under a 12-year contract at a stable, market-based rate.

The new electric transmission business will be a California company established to own and operate the transmission system currently operated by the utility. The system comprises 18,500 circuit miles of electric transmission lines and cables.

The new gas transmission business will be a California company established to own and operate the natural gas transmission assets currently operated by the utility, including 6,300 miles of transmission pipelines and three gas storage facilities.

Following the reorganization, the California Public Utilities Commission (CPUC) will continue to regulate the reorganized Pacific Gas and Electric Company, including retail electric and natural gas rates.

The Federal Energy Regulatory Commission (FERC) will continue to have jurisdiction over the licenses for the hydroelectric assets, and the rates, terms and conditions of service provided by the electric transmission business. FERC will also assume jurisdiction over rates for the power generated by the Diablo Canyon Nuclear Power Plant, and over the rates, terms and conditions of service for the gas transmission system, which will become an interstate pipeline.

The electric generation, electric transmission and gas transmission operations, when reorganized as new businesses under PG&E Corporation, will have the ability to issue debt that will be combined with new financing at Pacific Gas and Electric and used to help pay creditors' claims. The plan also restructures certain existing debt and uses \$3.3 billion in cash on hand to satisfy creditor claims. Under the plan, all valid creditor claims will be paid in full, using a combination of cash and long-term notes. In total, the plan will provide creditors with about \$9.1 billion in cash and \$4.1 billion in notes. The vast majority of creditors—those with allowed claims of \$100,000 or less—will receive cash payments for the full amount of their allowed claims on the effective date of the plan. Most secured creditors will also receive 100 percent of their allowed claims in cash. Finally, unsecured creditors with allowed claims in excess of the \$100,000 threshold will be paid 60 percent in cash and 40 percent in notes.

Following the restructuring, Pacific Gas and Electric Company and PG&E, the Chapter 11 process requires that the plan of reorganization ultimately be confirmed by the Bankruptcy Court before it can be implemented.

MARKET TRAINING

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CALIFORNIA CUSTOMER CHOICE ENDS

The California Public Utility Commission (CPUC) decided in a vote taken September 20, 2001 to end a retail customer's right to choose from whom they will purchase their energy. Customer choice in California has ended.

According to today's San Francisco Chronicle newspaper: *"State power regulators voted to suspend a key aspect of the state's deregulation effort, leaving California electricity customers unable to buy power from anyone other than their local utility. Allowing consumers to buy power directly from retailers such as Green Mountain Energy or Enron Corp. was one of the key elements of the failed deregulation system passed in 1996."*

A second decision was deferred. The State's new Public Power Authority was requesting the right to raise customer rates without CPUC review or approval.

Approximately 200,000 Californian's presently purchase energy from an entity other than their local utility. Those customers that presently have contracts to purchase energy from entities other than their local utility will be able to continue to do so until their contract term expires.

California may be moving dangerously close to giving control to a State controlled monopoly in which the people have no choices, inputs, or options.

Caution and care must to be exercised in seeking recovery from the market woes.

ENERGY MARKETS: CURSE OR HELP?

Seeking Answers For Emerging Markets

Why are energy markets successful and why do they fail? What does the "California experience" teach us?

The California energy marketplace is not a failure in the sense that there is open access that is no longer controlled by a vertically integrated utility. More power plants are being built in California, and the local investor-owned utilities no longer exercise a monopoly on service.

The California market process failed for many reasons (refer to background on <http://www.electrikgrid.com>). Emerging market systems have many objectives that include financial gain through the sale of generating facilities, restructuring into more efficient organizations, and providing competition in order to lower customer rates. Such purposes warrant effort and action. Each nation, each locality must measure the cost versus the benefit of restructuring. Most importantly, learn from California and benefit from the "California experience."

ASSET MANAGEMENT

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