

PG&E CORP

FORM 10-Q (Quarterly Report)

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Address	77 BEALE STREET P.O. BOX 770000 SAN FRANCISCO, CA 94177
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C., 20549
FORM 10-Q

(Mark One)
☒ [X]

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010

OR

☐ []

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number	Exact Name of Registrant as specified in its charter	State or other Jurisdiction of Incorporation	IRS Employer Identification Number
1-12609	PG&E Corporation	California	94-3234914
1-2348	Pacific Gas and Electric Company	California	94-0742640

Pacific Gas and Electric Company 77 Beale Street P.O. Box 770000 San Francisco, California 94177	PG&E Corporation One Market, Spear Tower Suite 2400 San Francisco, California 94105
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Address of principal executive offices, including zip code

Pacific Gas and Electric Company (415) 973-7000	PG&E Corporation (415) 267-7000
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Registrant's telephone number, including area code

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. ☒ [X] Yes ☐ [] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

PG&E Corporation ☒ [X] Yes ☐ [] No

Pacific Gas and Electric Company: ☐ [] Yes ☐ [] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

PG&E Corporation:	☒ Large accelerated filer	☐ Accelerated Filer
	☐ Non-accelerated filer	☐ Smaller reporting company
Pacific Gas and Electric Company:	☐ Large accelerated filer	☐ Accelerated Filer
	☒ Non-accelerated filer	☐ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

PG&E Corporation:	☐ Yes ☒ No
Pacific Gas and Electric Company:	☐ Yes ☒ No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Common Stock Outstanding as of July 29, 2010:

PG&E Corporation	390,752,206
Pacific Gas and Electric Company	264,374,809

Table of Contents

**PG&E CORPORATION AND
PACIFIC GAS AND ELECTRIC COMPANY,
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010
TABLE OF CONTENTS**

	<u>PAGE</u>
PART I. FINANCIAL INFORMATION	
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
PG&E Corporation	
Condensed Consolidated Statements of Income	3
Condensed Consolidated Balance Sheets	4
Condensed Consolidated Statements of Cash Flows	6
Pacific Gas and Electric Company	
Condensed Consolidated Statements of Income	7
Condensed Consolidated Balance Sheets	8
Condensed Consolidated Statements of Cash Flows	10
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
NOTE 1: Organization and Basis of Presentation	11
NOTE 2: Significant Accounting Policies	11
NOTE 3: Regulatory Assets, Liabilities, and Balancing Accounts	14
NOTE 4: Debt	17
NOTE 5: Equity	18
NOTE 6: Earnings Per Share	19
NOTE 7: Derivatives and Hedging Activities	21
NOTE 8: Fair Value Measurements	25
NOTE 9: Related Party Agreements and Transactions	31
NOTE 10: Resolution of Remaining Chapter 11 Disputed Claims	31
NOTE 11: Commitments and Contingencies	32
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	
Overview	39
Cautionary Language Regarding Forward-Looking Statements	41
Results of Operations	43
Liquidity and Financial Resources	49
Contractual Commitments	53
Capital Expenditures	53
Off-Balance Sheet Arrangements	55
Contingencies	55
Regulatory Matters	55
Environmental Matters	57
Other Matters	59
Risk Management Activities	60
Critical Accounting Policies	62
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	63
ITEM 4. CONTROLS AND PROCEDURES	63
PART II. OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	64
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	64
ITEM 5. OTHER INFORMATION	65
ITEM 6. EXHIBITS	66

PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PG&E CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)	(Unaudited)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Operating Revenues				
Electric	\$ 2,515	\$ 2,554	\$5,025	\$4,980
Natural gas	717	640	1,682	1,645
Total operating revenues	<u>3,232</u>	<u>3,194</u>	<u>6,707</u>	<u>6,625</u>
Operating Expenses				
Cost of electricity	863	883	1,783	1,766
Cost of natural gas	247	188	742	745
Operating and maintenance	959	1,038	1,950	2,097
Depreciation, amortization, and decommissioning	468	429	919	848
Total operating expenses	<u>2,537</u>	<u>2,538</u>	<u>5,394</u>	<u>5,456</u>
Operating Income	695	656	1,313	1,169
Interest income	2	17	4	26
Interest expense	(175)	(178)	(343)	(359)
Other income (expense), net	2	22	(4)	40
Income Before Income Taxes	524	517	970	876
Income tax provision	187	125	372	240
Net Income	337	392	598	636
Preferred stock dividend requirement of subsidiary	4	4	7	7
Income Available for Common Shareholders	<u>\$ 333</u>	<u>\$ 388</u>	<u>\$ 591</u>	<u>\$ 629</u>
Weighted Average Common Shares Outstanding, Basic	<u>373</u>	<u>368</u>	<u>372</u>	<u>366</u>
Weighted Average Common Shares Outstanding, Diluted	<u>390</u>	<u>369</u>	<u>389</u>	<u>367</u>
Net Earnings Per Common Share, Basic	<u>\$ 0.88</u>	<u>\$ 1.03</u>	<u>\$ 1.56</u>	<u>\$ 1.68</u>
Net Earnings Per Common Share, Diluted	<u>\$ 0.86</u>	<u>\$ 1.02</u>	<u>\$ 1.54</u>	<u>\$ 1.67</u>
Dividends Declared Per Common Share	<u>\$ 0.46</u>	<u>\$ 0.42</u>	<u>\$ 0.91</u>	<u>\$ 0.84</u>

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PG&E CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)	(Unaudited) Balance At	
	June 30, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 265	\$ 527
Restricted cash	583	633
Accounts receivable:		
Customers (net of allowance for doubtful accounts of \$71 at June 30, 2010 and \$68 at December 31, 2009)	846	859
Accrued unbilled revenue	722	671
Regulatory balancing accounts	1,369	1,109
Other	759	750
Inventories:		
Gas stored underground and fuel oil	142	114
Materials and supplies	192	200
Income taxes receivable	—	127
Prepaid expenses and other	734	667
Total current assets	5,612	5,657
Property, Plant, and Equipment		
Electric	31,408	30,481
Gas	10,971	10,697
Construction work in progress	2,149	1,888
Other	14	14
Total property, plant, and equipment	44,542	43,080
Accumulated depreciation	(14,559)	(14,188)
Net property, plant, and equipment	29,983	28,892
Other Noncurrent Assets		
Regulatory assets (\$944 and \$1,124 related to Energy Recovery Bonds at June 30, 2010 and December 31, 2009, respectively)	5,610	5,522
Nuclear decommissioning trusts	1,854	1,899
Income taxes receivable	693	596
Other	466	379
Total other noncurrent assets	8,623	8,396
TOTAL ASSETS	\$ 44,218	\$ 42,945

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PG&E CORPORATION CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	Balance At	
	June 30,	December 31,
(in millions, except share amounts)	2010	2009
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term borrowings	\$ 1,057	\$ 833
Long-term debt, classified as current	595	342
Energy recovery bonds, classified as current	395	386
Accounts payable:		
Trade creditors	920	984
Disputed claims and customer refunds	746	773
Regulatory balancing accounts	437	281
Other	356	349
Interest payable	839	818
Income taxes payable	634	214
Deferred income taxes	403	332
Other	1,237	1,501
Total current liabilities	7,619	6,813
Noncurrent Liabilities		
Long-term debt	10,179	10,381
Energy recovery bonds	636	827
Regulatory liabilities	4,275	4,125
Pension and other postretirement benefits	2,018	1,773
Asset retirement obligations	1,600	1,593
Deferred income taxes	4,637	4,732
Other	2,131	2,116
Total noncurrent liabilities	25,476	25,547
Commitments and Contingencies		
Equity		
Shareholders' Equity		
Preferred stock, no par value, authorized 80,000,000 shares, \$100 par value, authorized 5,000,000 shares, none issued	—	—
Common stock, no par value, authorized 800,000,000 shares, 390,103,473 shares outstanding (including 476,312 restricted shares) at June 30, 2010 and 371,272,457 shares outstanding (including 670,552 restricted shares) at December 31, 2009	6,646	6,280
Reinvested earnings	4,457	4,213
Accumulated other comprehensive loss	(232)	(160)
Total shareholders' equity	10,871	10,333
Noncontrolling Interest – Preferred Stock of Subsidiary	252	252
Total equity	11,123	10,585
TOTAL LIABILITIES AND EQUITY	\$44,218	\$ 42,945

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PG&E CORPORATION CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	(Unaudited) Six Months Ended June 30,	
	2010	2009
Cash Flows from Operating Activities		
Net income	\$ 598	\$ 636
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and decommissioning	1,038	944
Allowance for equity funds used during construction	(57)	(47)
Deferred income taxes and tax credits, net	(3)	377
Other changes in noncurrent assets and liabilities	(97)	(46)
Effect of changes in operating assets and liabilities:		
Accounts receivable	(47)	198
Inventories	(20)	113
Accounts payable	7	(143)
Income taxes receivable/payable	458	161
Regulatory balancing accounts, net	(206)	(228)
Other current assets	28	10
Other current liabilities	(326)	(224)
Other	—	3
Net cash provided by operating activities	1,373	1,754
Cash Flows from Investing Activities		
Capital expenditures	(1,786)	(2,077)
Decrease in restricted cash	50	15
Proceeds from sales and maturities of nuclear decommissioning trust investments	685	954
Purchases of nuclear decommissioning trust investments	(696)	(985)
Other	4	12
Net cash used in investing activities	(1,743)	(2,081)
Cash Flows from Financing Activities		
Borrowings under revolving credit facilities	30	300
Repayments under revolving credit facilities	—	(300)
Net issuance (repayments) of commercial paper, net of discount of \$1 in 2010 and \$3 in 2009	693	(47)
Proceeds from issuance of short-term debt, net of issuance costs of \$1 in 2009	—	499
Proceeds from issuance of long-term debt, net of discount and issuance costs of \$5 in 2010 and \$16 in 2009	295	884
Short-term debt matured	(500)	—
Long-term debt matured	—	(600)
Energy recovery bonds matured	(182)	(174)
Common stock issued	89	182
Common stock dividends paid	(320)	(286)
Other	3	(12)
Net cash provided by financing activities	108	446
Net change in cash and cash equivalents	(262)	119
Cash and cash equivalents at January 1	527	219
Cash and cash equivalents at June 30	\$ 265	\$ 338
Supplemental disclosures of cash flow information		
Cash received (paid) for:		
Interest, net of amounts capitalized	\$ (309)	\$ (298)
Income taxes, net	36	201
Supplemental disclosures of noncash investing and financing activities		
Common stock dividends declared but not yet paid	\$ 178	\$ 155
Capital expenditures financed through accounts payable	209	245
Noncash common stock issuances	253	39

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PACIFIC GAS AND ELECTRIC COMPANY CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in millions)	(Unaudited)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Operating Revenues				
Electric	\$ 2,515	\$ 2,554	\$5,025	\$4,980
Natural gas	717	640	1,682	1,645
Total operating revenues	<u>3,232</u>	<u>3,194</u>	<u>6,707</u>	<u>6,625</u>
Operating Expenses				
Cost of electricity	863	883	1,783	1,766
Cost of natural gas	247	188	742	745
Operating and maintenance	958	1,037	1,948	2,096
Depreciation, amortization, and decommissioning	468	429	919	848
Total operating expenses	<u>2,536</u>	<u>2,537</u>	<u>5,392</u>	<u>5,455</u>
Operating Income	696	657	1,315	1,170
Interest income	2	17	4	26
Interest expense	(164)	(166)	(320)	(339)
Other income (expense), net	1	15	(5)	36
Income Before Income Taxes	535	523	994	893
Income tax provision	196	132	391	263
Net Income	339	391	603	630
Preferred stock dividend requirement	4	4	7	7
Income Available for Common Stock	<u>\$ 335</u>	<u>\$ 387</u>	<u>\$ 596</u>	<u>\$ 623</u>

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PACIFIC GAS AND ELECTRIC COMPANY CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) Balance At	
	June 30, 2010	December 31, 2009
(in millions)		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 60	\$ 334
Restricted cash	583	633
Accounts receivable:		
Customers (net of allowance for doubtful accounts of \$71 at June 30, 2010 and \$68 at December 31, 2009)	846	859
Accrued unbilled revenue	722	671
Regulatory balancing accounts	1,369	1,109
Other	794	751
Inventories:		
Gas stored underground and fuel oil	142	114
Materials and supplies	192	200
Income taxes receivable	—	138
Prepaid expenses and other	733	662
Total current assets	5,441	5,471
Property, Plant, and Equipment		
Electric	31,408	30,481
Gas	10,971	10,697
Construction work in progress	2,149	1,888
Total property, plant, and equipment	44,528	43,066
Accumulated depreciation	(14,546)	(14,175)
Net property, plant, and equipment	29,982	28,891
Other Noncurrent Assets		
Regulatory assets (\$944 and \$1,124 related to Energy Recovery Bonds at June 30, 2010 and December 31, 2009, respectively)	5,610	5,522
Nuclear decommissioning trusts	1,854	1,899
Income taxes receivable	740	610
Other	368	316
Total other noncurrent assets	8,572	8,347
TOTAL ASSETS	\$ 43,995	\$ 42,709

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PACIFIC GAS AND ELECTRIC COMPANY CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) Balance At	
	June 30, 2010	December 31, 2009
(in millions, except share amounts)		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	\$ 1,027	\$ 833
Long-term debt, classified as current	595	95
Energy recovery bonds, classified as current	395	386
Accounts payable:		
Trade creditors	920	984
Disputed claims and customer refunds	746	773
Regulatory balancing accounts	437	281
Other	367	363
Interest payable	834	813
Income tax payable	662	223
Deferred income taxes	409	334
Other	1,032	1,307
Total current liabilities	7,424	6,392
Noncurrent Liabilities		
Long-term debt	9,831	10,033
Energy recovery bonds	636	827
Regulatory liabilities	4,275	4,125
Pension and other postretirement benefits	1,960	1,717
Asset retirement obligations	1,600	1,593
Deferred income taxes	4,688	4,764
Other	2,099	2,073
Total noncurrent liabilities	25,089	25,132
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock without mandatory redemption provisions:		
Nonredeemable, 5.00% to 6.00%, 5,784,825 shares outstanding at June 30, 2010 and December 31, 2009	145	145
Redeemable, 4.36% to 5.00%, 4,534,958 shares outstanding at June 30, 2010 and December 31, 2009	113	113
Common stock, \$5 par value, authorized 800,000,000 shares, 264,374,809 shares outstanding at June 30, 2010 and December 31, 2009	1,322	1,322
Additional paid-in capital	3,186	3,055
Reinvested earnings	6,942	6,704
Accumulated other comprehensive loss	(226)	(154)
Total shareholders' equity	11,482	11,185
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$43,995	\$ 42,709

See accompanying Notes to the Condensed Consolidated Financial Statements.

Table of Contents

PACIFIC GAS AND ELECTRIC COMPANY CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	(Unaudited) Six Months Ended June 30,	
	2010	2009
Cash Flows from Operating Activities		
Net income	\$ 603	\$ 630
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and decommissioning	1,016	932
Allowance for equity funds used during construction	(57)	(47)
Deferred income taxes and tax credits, net	(1)	368
Other changes in noncurrent assets and liabilities	(63)	(34)
Effect of changes in operating assets and liabilities:		
Accounts receivable	(81)	199
Inventories	(20)	113
Accounts payable	4	(140)
Income taxes receivable/payable	475	64
Regulatory balancing accounts, net	(206)	(228)
Other current assets	28	10
Other current liabilities	(316)	(220)
Other	—	3
Net cash provided by operating activities	1,382	1,650
Cash Flows from Investing Activities		
Capital expenditures	(1,786)	(2,077)
Decrease in restricted cash	50	15
Proceeds from sales and maturities of nuclear decommissioning trust investments	685	954
Purchases of nuclear decommissioning trust investments	(696)	(985)
Other	11	5
Net cash used in investing activities	(1,736)	(2,088)
Cash Flows from Financing Activities		
Borrowings under revolving credit facilities	—	300
Repayments under revolving credit facilities	—	(300)
Net issuance (repayments) of commercial paper, net of discount of \$1 in 2010 and \$3 in 2009	693	(47)
Proceeds from issuance of short-term debt, net of issuance costs of \$1 in 2009	—	499
Proceeds from issuance of long-term debt, net of discount and issuance costs of \$5 in 2010 and \$12 in 2009	295	538
Short-term debt matured	(500)	—
Long-term debt matured	—	(600)
Energy recovery bonds matured	(182)	(174)
Preferred stock dividends paid	(7)	(7)
Common stock dividends paid	(358)	(312)
Equity contribution	130	653
Other	9	(6)
Net cash provided by financing activities	80	544
Net change in cash and cash equivalents	(274)	106
Cash and cash equivalents at January 1	334	52
Cash and cash equivalents at June 30	\$ 60	\$ 158
Supplemental disclosures of cash flow information		
Cash received (paid) for:		
Interest, net of amounts capitalized	\$ (287)	\$ (286)
Income taxes, net	34	70
Supplemental disclosures of noncash investing and financing activities		
Capital expenditures financed through accounts payable	\$ 209	\$ 245

See accompanying Notes to the Condensed Consolidated Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**NOTE 1: ORGANIZATION AND BASIS OF PRESENTATION**

PG&E Corporation is a holding company whose primary purpose is to hold interests in energy-based businesses. PG&E Corporation conducts its business principally through Pacific Gas and Electric Company (“Utility”), a public utility operating in northern and central California. The Utility generates revenues mainly through the sale and delivery of electricity and natural gas to customers. The Utility is primarily regulated by the California Public Utilities Commission (“CPUC”) and the Federal Energy Regulatory Commission (“FERC”). The Utility’s accounts for electric and gas operations are maintained in accordance with the Uniform System of Accounts prescribed by the FERC.

This quarterly report on Form 10-Q is a combined report of PG&E Corporation and the Utility that includes separate Condensed Consolidated Financial Statements for each company. The Notes to the Condensed Consolidated Financial Statements apply to both PG&E Corporation and the Utility. PG&E Corporation’s Condensed Consolidated Financial Statements include the accounts of PG&E Corporation, the Utility, and other wholly owned and controlled subsidiaries. The Utility’s Condensed Consolidated Financial Statements include the accounts of the Utility and its wholly owned and controlled subsidiaries. All intercompany transactions have been eliminated from the Condensed Consolidated Financial Statements.

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”) and therefore do not contain all of the information and footnotes required by GAAP and the SEC for annual financial statements. PG&E Corporation’s and the Utility’s Condensed Consolidated Financial Statements reflect all adjustments (consisting only of normal recurring adjustments) that management believes are necessary for the fair presentation of their financial condition, results of operations, and cash flows for the periods presented. The information at December 31, 2009 in both PG&E Corporation’s and the Utility’s Condensed Consolidated Balance Sheets included in this quarterly report was derived from the audited Consolidated Balance Sheets incorporated by reference into their combined 2009 Annual Report on Form 10-K filed on February 19, 2010. PG&E Corporation’s and the Utility’s combined 2009 Annual Report on Form 10-K, together with the information incorporated by reference into such report, is referred to in this quarterly report as the “2009 Annual Report.”

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based on a wide range of factors, including future regulatory decisions and economic conditions that are difficult to predict. Some of the more critical estimates and assumptions relate to the Utility’s regulatory assets and liabilities, environmental remediation liabilities, asset retirement obligations (“ARO”), income tax-related assets and liabilities, pension plan and other postretirement plan obligations, and accruals for legal matters. Management believes that its estimates and assumptions reflected in the Condensed Consolidated Financial Statements are appropriate and reasonable. A change in management’s estimates or assumptions could result in an adjustment that would have a material impact on PG&E Corporation’s and the Utility’s financial condition and results of operations during the period in which such change occurred. This quarterly report should be read in conjunction with the 2009 Annual Report.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by PG&E Corporation and the Utility are discussed in Notes 1 and 2 of the Notes to the Consolidated Financial Statements in the 2009 Annual Report. Any significant changes to those policies or new significant policies are described below.

Pension and Other Postretirement Benefits

PG&E Corporation and the Utility provide a non-contributory defined benefit pension plan for eligible employees and retirees (referred to collectively as “pension benefits”), contributory postretirement medical plans for eligible employees and retirees and their eligible dependents, and non-contributory postretirement life insurance plans for eligible employees and retirees (referred to collectively as “other benefits”). PG&E Corporation and the Utility use a December 31 measurement date for all plans.

Table of Contents

The net periodic benefit costs reflected in PG&E Corporation's Condensed Consolidated Statements of Income for the three and six-months ended June 30, 2010 and 2009 were as follows:

(in millions)	Pension Benefits		Other Benefits	
	Three Months Ended		Three Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Service cost for benefits earned	\$ 69	\$ 67	\$ 9	\$ 7
Interest cost	161	155	23	21
Expected return on plan assets	(156)	(145)	(18)	(17)
Amortization of transition obligation	—	—	6	7
Amortization of prior service cost	13	12	6	4
Amortization of unrecognized loss	11	24	1	1
Net periodic benefit cost	98	113	27	23
Less: transfer to regulatory account ⁽¹⁾	(58)	(72)	—	—
Total	\$ 40	\$ 41	\$ 27	\$ 23

⁽¹⁾ The Utility recorded \$58 million and \$72 million for the three month periods ended June 30, 2010 and 2009, respectively, to a regulatory account as the amounts are probable of recovery from customers in future rates.

(in millions)	Pension Benefits		Other Benefits	
	Six Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Service cost for benefits earned	\$ 139	\$ 133	\$ 19	\$ 15
Interest cost	322	310	46	42
Expected return on plan assets	(312)	(290)	(36)	(34)
Amortization of transition obligation	—	—	12	13
Amortization of prior service cost	27	23	12	8
Amortization of unrecognized loss	21	49	2	2
Net periodic benefit cost	197	225	55	46
Less: transfer to regulatory account ⁽¹⁾	(115)	(143)	—	—
Total	\$ 82	\$ 82	\$ 55	\$ 46

⁽¹⁾ The Utility recorded \$115 million and \$143 million for the six month periods ended June 30, 2010 and 2009, respectively, to a regulatory account as the amounts are probable of recovery from customers in future rates.

There was no material difference between PG&E Corporation's and the Utility's consolidated net periodic benefit costs for the three and six months ended June 30, 2010 and 2009.

On February 16, 2010, the Utility amended its defined benefit medical plans for retirees to provide for additional contributions towards retiree premiums. The plan amendment was accounted for as a plan modification that required re-measurement of the accumulated benefit obligation, plan assets, and periodic benefit costs. The inputs and assumptions used in re-measurement did not change significantly from December 31, 2009 and did not have a material impact on the funded status of the plans. The re-measurement of the accumulated benefit obligation and plan assets resulted in an increase to pension and other postretirement benefits and a decrease to other comprehensive income of \$148 million. The impact to net periodic benefit cost was not material.

Adoption of New Accounting Pronouncements

Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities

On January 1, 2010, PG&E Corporation and the Utility adopted an accounting standards update that changes when and how to determine, or re-determine, whether an entity is a variable interest entity ("VIE"), which could require consolidation. In addition, the new guidance replaces the quantitative approach for determining who has a controlling financial interest in a VIE with a qualitative approach, and requires ongoing assessments of whether an entity is the primary beneficiary of a VIE. The adoption of the accounting standards update did not have a material impact on PG&E Corporation's or the Utility's Condensed Consolidated Financial Statements.

Table of Contents

PG&E Corporation and the Utility are required to consolidate any entities which the companies control. In most cases, control can be determined based on majority ownership or voting interests. However, for certain entities, control is difficult to discern based on equity or voting interests alone. These entities are referred to as VIEs. A VIE is an entity which does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties, or whose equity investors lack any characteristics of a controlling financial interest. An enterprise has a controlling financial interest if it has (1) the obligation to absorb expected losses or receive expected gains that could potentially be significant to the VIE and (2) the power to direct the activities that are most significant to the VIE's economic performance. The enterprise that has a controlling financial interest is known as the VIE's primary beneficiary and is the enterprise that is required to consolidate the VIE.

Some of the counterparties to the Utility's power purchase agreements are considered VIEs. In determining whether the Utility has a controlling financial interest in the VIE, the Utility must first assess whether it absorbs any of the VIE's expected losses or receives portions of the expected residual returns as a result of the power purchase agreement. This assessment includes an evaluation of how the risks and rewards associated with the power plant's activities are absorbed by variable interest holders. These VIEs are typically exposed to credit risk, production risk, commodity price risk, and any applicable tax incentive risks, among others. The Utility analyzes the variability in the VIE's gross margin and the impact of the power purchase agreement on the gross margin to determine whether the Utility absorbs variability, resulting in a variable interest. Factors that may be considered when assessing the impact of the power purchase agreement on the VIE's gross margin include the pricing structure of the agreement and the cost of inputs and production, depending on the technology of the power plant.

For each variable interest, the Utility must also determine whether it has the power to direct the activities of the power plant that most directly impact the VIE's economic performance. The Utility's assessment of the activities that are economically significant to the VIE's performance often include decision-making rights associated with designing the VIE, dispatch rights, operating and maintenance activities, and re-marketing activities of the power plant after the end of its power purchase agreement with the Utility.

The Utility held a variable interest in several entities that own power plants that generate electricity for sale to the Utility under power purchase agreements. Each of these VIEs was designed to own a power plant that would generate electricity for sale to the Utility utilizing various technologies such as natural gas, wind, solar photovoltaic, solar thermal, hydroelectric, and other technologies. Under each power purchase agreement, the Utility is obligated to purchase electricity or capacity, or both, from the VIEs. The Utility does not provide any other financial or other support to these VIEs and the Utility's financial exposure is limited to the amount it pays for delivered electricity and capacity. (See Note 11 below.) The Utility does not have the power to direct the activities of the VIE that are most significant to the VIE's economic performance. As a result, the Utility does not have a controlling financial interest in any of these VIEs. Therefore, at June 30, 2010, the Utility was not the primary beneficiary of any of these VIEs.

The Utility continues to consolidate PG&E Energy Recovery Funding LLC ("PERF") at June 30, 2010, as the Utility is the primary beneficiary of PERF. The Utility has a controlling financial interest in PERF as the Utility is exposed to PERF's losses and returns through the Utility's equity investment in PERF, and the Utility was involved in the design of PERF, an activity that is significant to PERF's economic performance. The assets of PERF were \$1.1 billion at June 30, 2010, and primarily consisted of regulatory assets related to energy recovery bonds, which is included in long-term regulatory assets in the Condensed Consolidated Balance Sheets. The liabilities of PERF were \$1.0 billion at June 30, 2010, and consisted of energy recovery bonds, which is included in current and noncurrent liabilities in the Condensed Consolidated Balance Sheets. (See Note 4 below.) The assets of PERF are only available to settle the liabilities of PERF.

As of June 30, 2010, PG&E Corporation's affiliates had entered into tax equity agreements with two privately held companies, SolarCity Corp. ("SolarCity") and SunRun, Inc. ("SunRun"), to fund residential and commercial retail solar energy installations. SolarCity and SunRun are VIEs. Under master lease agreements with SolarCity, PG&E Corporation will provide payments of up to \$80 million, and in return, receive a share of SolarCity customer lease revenues, along with the benefits of local rebates and federal investment tax credits. Under an agreement with SunRun, PG&E Corporation will fund investments up to \$100 million and will receive a share of customer payments, as well as federal investment tax credits and other tax benefits. As of June 30, 2010, PG&E Corporation had made total payments of \$33 million under these two arrangements, which was recorded in noncurrent assets – other in the Condensed Consolidated Balance Sheets. PG&E Corporation held a variable interest in these entities as a result of these tax equity agreements. When determining whether PG&E Corporation was the primary beneficiary of the VIEs, PG&E Corporation evaluated which party had control over significant economic activities such as designing the entity, vendor selection, construction, customer selection, and remarketing activities at the end of the customer leases, among other activities. As these activities were under the control of SolarCity and SunRun, PG&E Corporation was not the primary beneficiary of these VIEs at June 30, 2010. PG&E Corporation's financial exposure for these arrangements is primarily limited to its tax equity investments in SolarCity and SunRun.

Table of Contents

Improving Disclosures about Fair Value Measurements

On January 1, 2010, PG&E Corporation and the Utility adopted an accounting standards update that requires disclosures regarding significant transfers in and out of fair value hierarchy levels, and fair value measurement inputs and valuation techniques. Furthermore, the update requires presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable (Level 3) inputs, beginning for the first quarter of 2011. The adoption of the accounting standards update did not have a material impact on PG&E Corporation's or the Utility's Condensed Consolidated Financial Statements.

NOTE 3: REGULATORY ASSETS, LIABILITIES, AND BALANCING ACCOUNTS

As a regulated entity, the Utility's rates are designed to recover the costs of providing service. The Utility capitalizes and records, as a regulatory asset, costs that would otherwise be charged to expense if it is probable that the incurred costs will be recovered in future rates. The regulatory assets are amortized over future periods when the costs are expected to be recovered. If costs expected to be incurred in the future are currently being recovered through rates, the Utility records those expected future costs as regulatory liabilities. In addition, amounts that are probable of being credited or refunded to customers in the future are recorded as regulatory liabilities.

The Utility uses regulatory balancing accounts to accumulate differences between actual billed and unbilled revenues and the Utility's authorized revenue requirements for the period. The Utility also uses regulatory balancing accounts to accumulate differences between incurred costs and actual billed and unbilled revenues, as well as differences between incurred costs and authorized revenue meant to recover those costs. Under-collections that are probable of recovery through regulated rates are recorded as regulatory balancing account assets. Over-collections that are probable of being refunded to customers are recorded as regulatory balancing account liabilities.

Regulatory Assets

Current Regulatory Assets

At June 30, 2010 and December 31, 2009, the Utility had current regulatory assets of \$570 million and \$427 million, respectively, consisting primarily of the current portion of price risk management regulatory assets. Price risk management regulatory assets represent the deferral of unrealized losses related to price risk management derivative instruments with terms of one year or less. (See Note 7 below for further discussion.) Current regulatory assets are included in prepaid expenses and other in the Condensed Consolidated Balance Sheets.

Long-Term Regulatory Assets

Long-term regulatory assets are composed of the following:

(in millions)	Balance at	
	June 30, 2010	December 31, 2009
Pension benefits	\$ 1,455	\$ 1,386
Deferred income taxes	1,116	1,027
Energy recovery bonds	944	1,124
Utility retained generation	701	737
Price risk management	459	346
Environmental compliance costs	398	408
Unamortized loss, net of gain, on reacquired debt	192	203
Other	345	291
Total long-term regulatory assets	\$ 5,610	\$ 5,522

The regulatory asset for pension benefits represents the cumulative differences between amounts recognized for ratemaking purposes and amounts recognized in accordance with GAAP, which also includes amounts that otherwise would be fully recorded to accumulated other comprehensive loss in the Condensed Consolidated Balance Sheets. (See Note 13 of the Notes to the Consolidated Financial Statements in the 2009 Annual Report.)

The regulatory assets for deferred income taxes represent deferred income tax benefits previously passed through to customers. The CPUC requires the Utility to pass through certain tax benefits to customers by reducing rates, thereby ignoring the effect of deferred taxes on rates. Based on current regulatory ratemaking and income tax laws, the Utility expects to recover these regulatory assets over average plant depreciation lives of 1 to 45 years.

Table of Contents

The regulatory asset for energy recovery bonds (“ERBs”) represents the refinancing of the regulatory asset provided for in the settlement agreement entered into between PG&E Corporation, the Utility, and the CPUC in 2003 to resolve the Utility’s proceeding under Chapter 11 of the U.S. Bankruptcy Code (“Chapter 11 Settlement Agreement”). (See Note 4 below.) The regulatory asset is amortized over the life of the bonds, consistent with the period over which the related revenues and bond-related expenses are recognized. The Utility expects to fully recover this asset by the end of 2012 when the ERBs mature.

In connection with the Chapter 11 Settlement Agreement, the CPUC authorized the Utility to recover \$1.2 billion of costs related to the Utility’s retained generation assets. The individual components of these regulatory assets are being amortized over the respective lives of the underlying generation facilities, consistent with the period over which the related revenues are recognized. The weighted average remaining life of the assets is 14 years.

Price risk management regulatory assets represent the deferral of unrealized losses related to price risk management derivative instruments with terms in excess of one year. (See Note 7 below.)

The regulatory assets for environmental compliance costs represent the portion of estimated environmental remediation costs that the Utility expects to recover in future rates as actual remediation costs are incurred. The Utility expects to recover these costs over the next 32 years. (See Note 11 below.)

The regulatory assets for unamortized loss, net of gain, on reacquired debt represent costs related to debt reacquired or redeemed prior to maturity with associated discount and debt issuance costs. These costs are expected to be recovered over the next 16 years, which is the remaining amortization period of the reacquired debt. The Utility expects to fully recover these costs by 2026.

At June 30, 2010 and December 31, 2009, “other” consisted of regulatory assets relating to ARO expenses that are probable of future recovery through the ratemaking process, removal costs associated with the replacement of the steam generators in the Utility’s two nuclear generating units at the Diablo Canyon Power Plant (“Diablo Canyon”), and removal costs associated with the replacement of old electromechanical meters with SmartMeter devices. “Other” also consisted of costs that the Utility incurred in terminating a 30-year power purchase agreement, which are being amortized and collected in rates through September 2014, as well as costs incurred in relation to the Utility’s plan of reorganization under Chapter 11 that became effective in April 2004.

In general, the Utility does not earn a return on regulatory assets if the related costs do not accrue interest. Accordingly, the Utility earns a return only on its retained generation regulatory assets and regulatory assets for unamortized loss, net of gain, on reacquired debt.

Regulatory Liabilities

Current Regulatory Liabilities

At June 30, 2010 and December 31, 2009, the Utility had current regulatory liabilities of \$81 million and \$163 million, respectively, primarily consisting of the amounts that the Utility expects to refund to customers for over-collected electric transmission rates and the current portion of price risk management regulatory liabilities. Price risk management regulatory liabilities represent the deferral of unrealized gains related to price risk management derivative instruments with terms of one year or less. Current regulatory liabilities are included in current liabilities – other in the Condensed Consolidated Balance Sheets.

Long-Term Regulatory Liabilities

Long-term regulatory liabilities are composed of the following:

(in millions)	Balance at	
	June 30, 2010	December 31, 2009
Cost of removal obligation	\$ 3,112	\$ 2,933
Public purpose programs	604	508
Recoveries in excess of ARO	433	488
Other	126	196
Total long-term regulatory liabilities	\$ 4,275	\$ 4,125

The regulatory liability for the Utility’s cost of removal obligations represents differences between amounts collected in rates for asset removal costs and the asset removal costs recorded in accordance with GAAP.

Table of Contents

The regulatory liability for public purpose programs represents amounts received from customers designated for public purpose program costs that are expected to be incurred in the future. For example, these regulatory liabilities include revenues collected from customers to pay for costs that the Utility expects to incur in the future under the California Solar Initiative to promote the use of solar energy in residential homes and commercial, industrial, and agricultural properties.

The regulatory liability for recoveries in excess of ARO represents differences between amounts collected in rates for decommissioning the Utility's nuclear power facilities and the ARO expenses recorded in accordance with GAAP. Decommissioning costs recovered in rates are placed in nuclear decommissioning trusts. The regulatory liability for recoveries in excess of ARO also represents the deferral of realized and unrealized gains and losses on those nuclear decommissioning trust assets.

"Other" at June 30, 2010 and December 31, 2009 included the deferral of unrealized gains related to price risk management derivative instruments with terms in excess of one year, the gain associated with the Utility's acquisition of the permits and other assets related to the Gateway Generating Station as part of a settlement that the Utility entered into with Mirant Corporation, and insurance recoveries for hazardous substance remediation.

Regulatory Balancing Accounts

The Utility's current regulatory balancing accounts represent the amounts expected to be received from or refunded to the Utility's customers through authorized rate adjustments within the next 12 months. Regulatory balancing accounts that the Utility does not expect to collect or refund in the next 12 months are included in other noncurrent assets – regulatory assets and noncurrent liabilities – regulatory liabilities in the Condensed Consolidated Balance Sheets.

Current Regulatory Balancing Accounts, net

(in millions)	Receivable (Payable)	
	Balance at	
	June 30, 2010	December 31, 2009
Utility generation	\$ 542	\$ 355
Distribution revenue adjustment mechanism	319	152
Public purpose programs	71	83
Gas fixed cost	13	93
Energy procurement costs	(12)	128
Electric transmission	(39)	114
Energy recovery bonds	(163)	(185)
Other	201	88
Total regulatory balancing accounts, net	\$ 932	\$ 828

The utility generation balancing account is used to record and recover the authorized revenue requirements associated with Utility-owned electric generation, including capital and related non-fuel operating and maintenance expenses. The distribution revenue adjustment mechanism balancing account is used to record and recover the authorized electric distribution revenue requirements and certain other electric distribution-related authorized costs. The Utility's recovery of these revenue requirements is independent, or "decoupled," from the volume of sales; therefore, the Utility recognizes revenue evenly over the year, even though the level of cash collected from customers will fluctuate depending on the volume of electricity sales. During periods of more temperate weather, there is generally an under-collection in this balancing account due to lower electricity sales and lower rates. During the warmer months of summer, there is generally an over-collection due to higher rates and electric usage that cause an increase in generation revenues.

The public purpose programs balancing accounts primarily track the recovery of the authorized public purpose program revenue requirements, the actual costs of such programs, and incentive awards earned by the Utility for implementing customer energy efficiency programs. The public purpose programs primarily consist of the energy efficiency programs; low-income energy efficiency programs; research, development, and demonstration programs; and renewable energy programs.

The gas fixed cost balancing account is used to track the recovery of CPUC-authorized gas distribution revenue requirements and certain other gas distribution-related costs. The under-collected or over-collected position of this account is dependent on seasonality and volatility in gas volumes.

The Utility is generally authorized to recover 100% of its prudently incurred electric fuel and energy procurement costs. The Utility tracks energy procurement costs in balancing accounts and files annual forecasts of energy procurement costs that it expects to incur during the following year. The Utility's electric rates are set to recover such expected costs.

Table of Contents

The electric transmission balancing accounts represent the difference between electric transmission wheeling revenues received by the Utility from the California Independent System Operator (“CAISO”) (on behalf of electric transmission customers) and refunds of those revenues to customers, the pass-through of transition access charge and credits for high voltage transmission, reliability service charges, and interest accrued on these account balances. In addition, these balancing accounts include the end-user customer refund balancing account, which is used to refund to customers over-collected electric transmission revenues.

The ERB balancing account records the benefits and costs associated with ERBs that are provided to, or received from, customers. This account ensures that customers receive the benefits of the net amount of energy supplier refunds, claim offsets, and other credits received by the Utility after the second series of ERBs was issued.

At June 30, 2010 and December 31, 2009, “other” included the California Department of Water Resources (“DWR”) power charge collection balancing account, which ensures amounts collected from customers for DWR-delivered power are remitted to the DWR; balancing accounts that track recovery of the authorized revenue requirements and costs related to the SmartMeter™ advanced metering project; and balancing accounts that track recoverable hazardous substance clean-up costs incurred by the Utility.

NOTE 4: DEBT

PG&E Corporation

Convertible Subordinated Notes

PG&E Corporation issued 16,370,779 shares of common stock upon conversion of the \$247 million principal amount of PG&E Corporation’s 9.50% Convertible Subordinated Notes at a conversion price of \$15.09 per share between June 23 and June 29, 2010. These notes were no longer outstanding at June 30, 2010.

In addition to conversion rights, the holders of the Convertible Subordinated Notes were entitled to receive “pass-through dividends” determined by multiplying the cash dividend paid by PG&E Corporation per share of common stock by a number equal to the principal amount of the Convertible Subordinated Notes divided by the conversion price. In the six months ended June 30, 2010, PG&E Corporation paid \$14 million of pass-through dividends. The payment of pass-through dividends is recognized as an operating cash flow in PG&E Corporation’s Condensed Consolidated Statement of Cash Flows. Changes in the fair value of the dividend participation rights, which are treated as a derivative, are recognized in PG&E Corporation’s Condensed Consolidated Statement of Income as a non-operating expense or income. (See Note 7 below for further discussion of these instruments.)

Credit Facilities

At June 30, 2010, PG&E Corporation had \$30 million of cash borrowings outstanding under its \$187 million revolving credit facility which had an average interest rate of 0.70%.

Utility

Senior Notes

On April 1, 2010, the Utility issued \$250 million principal amount of 5.8% Senior Notes due March 1, 2037.

Pollution Control Bonds

On April 8, 2010, the California Infrastructure and Economic Development Bank issued \$50 million of tax-exempt pollution control bonds series 2010E due on November 1, 2026 and loaned the proceeds to the Utility. The proceeds were used to refund the corresponding related series of pollution control bonds issued in 2005 which were repurchased by the Utility in 2008. The series 2010E bonds bear interest at 2.25% per year through April 1, 2012 and are subject to mandatory tender on April 2, 2012 at a price of 100% of the principal amount plus accrued interest. Thereafter, this series of bonds may be remarketed in a fixed or variable rate mode. Interest is payable semi-annually in arrears on April 1 and October 1.

Credit Facilities and Short-Term Borrowings

On June 8, 2010, the Utility entered into a \$750 million unsecured revolving credit agreement with a syndicate of lenders. Of the total credit capacity, \$500 million was used to replace the \$500 million Floating Rate Senior Notes that matured on June 10, 2010. The aggregate facility of \$750 million includes a \$75 million commitment for swingline loans, or loans that are made available on a same-day basis and are repayable in full within 30 days. The Utility can, at any time, repay amounts outstanding in whole or in part. The credit agreement expires on February 26, 2012, unless extended for additional periods at the Utility’s request and at the sole discretion of each lender. The Utility has the right to increase, in one or more requests given no more than once a year, the aggregate facility by up to \$250 million, provided certain conditions are met.

Table of Contents

Borrowings under the credit agreement (other than swingline loans) will bear interest based, at the Utility's election, on (1) a London Interbank Offered Rate ("LIBOR") plus an applicable margin or (2) the base rate, which will equal the higher of the (i) administrative agent's announced base rate, (ii) 0.5% above the federal funds rate, or (iii) the one-month LIBOR plus an applicable margin. Interest is payable quarterly in arrears, or earlier for loans with shorter interest periods. The Utility also will pay a facility fee on the total commitments of the lenders under the credit agreement. The applicable margin for LIBOR loans and the facility fee will be based on the Utility's senior unsecured, non-credit enhanced debt ratings issued by Standard & Poor's Ratings Services and Moody's Investors Service. Facility fees are payable quarterly in arrears.

The credit agreement contains covenants that are substantially similar to the covenants contained in the Utility's existing \$1.9 billion credit facility, and are usual and customary for credit facilities of this type. Both credit facilities require that the Utility maintain a ratio of total consolidated debt to total consolidated capitalization of, at most, 65% as of the end of each fiscal quarter.

At June 30, 2010, the Utility had no cash borrowings outstanding under its \$1.9 billion and \$750 million revolving credit facilities.

At June 30, 2010, the Utility had \$256 million of letters of credit outstanding under its \$1.9 billion revolving credit facility.

The Utility's revolving credit facilities also provide liquidity support for commercial paper offerings. At June 30, 2010, the Utility had \$1.0 billion of commercial paper outstanding at an average yield of 0.45%.

Energy Recovery Bonds

In 2005, PERF, a wholly owned consolidated subsidiary of the Utility, issued two separate series of ERBs in the aggregate amount of \$2.7 billion. The proceeds of the ERBs were used by PERF to purchase from the Utility the right, known as "recovery property," to be paid a specified amount from a dedicated rate component to be collected from the Utility's electricity customers. The total amount of ERB principal outstanding was \$1.0 billion at June 30, 2010.

While PERF is a wholly owned subsidiary of the Utility, it is legally separate from the Utility. The assets, including the recovery property, of PERF are not available to creditors of the Utility or PG&E Corporation, and the recovery property is not legally an asset of the Utility or PG&E Corporation.

NOTE 5: EQUITY

PG&E Corporation's and the Utility's changes in equity for the six months ended June 30, 2010 were as follows:

(in millions)	PG&E Corporation Total Equity	Utility Total Shareholders' Equity
Balance at December 31, 2009	\$ 10,585	\$ 11,185
Net income	598	603
Common stock issued	342	—
Share-based compensation expense	22	—
Common stock dividends declared	(347)	(358)
Preferred stock dividend requirement	—	(7)
Preferred stock dividend requirement of subsidiary	(7)	—
Tax benefit from employee stock plans	2	1
Other comprehensive income	(72)	(72)
Equity contribution	—	130
Balance at June 30, 2010	\$ 11,123	\$ 11,482

During the six months ended June 30, 2010, PG&E Corporation issued 16,370,779 shares of common stock upon conversion of the \$247 million principal amount of PG&E Corporation's Convertible Subordinated Notes. In addition, PG&E Corporation issued 2,340,451 shares of common stock upon the exercise of employee stock options and under its 401(k) plan and Dividend Reinvestment and Stock Purchase Plan.

For the six months ended June 30, 2010, PG&E Corporation contributed equity of \$130 million to the Utility in order to maintain the 52% common equity target authorized by the CPUC and to ensure that the Utility has adequate capital to fund its capital expenditures.

Table of Contents

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, which includes certain changes in equity that are excluded from net income. Specifically, cumulative adjustments for employee benefit plans, net of tax, are included in accumulated other comprehensive income.

(in millions)	PG&E Corporation			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	\$ 337	\$ 392	\$ 598	\$ 636
Employee benefit plan adjustment, net of tax ⁽¹⁾	8	7	(72)	14
Comprehensive income	\$ 345	\$ 399	\$ 526	\$ 650

⁽¹⁾ These balances are net of income tax expense of \$6 million and \$5 million for the three months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010, the income tax benefit was \$49 million and for the six months ended June 30, 2009, the income tax expense was \$9 million.

(in millions)	Utility			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	\$ 339	\$ 391	\$ 603	\$ 630
Employee benefit plan adjustment, net of tax ⁽¹⁾	8	7	(72)	14
Comprehensive income	\$ 347	\$ 398	\$ 531	\$ 644

⁽¹⁾ These balances are net of income tax expense of \$6 million and \$5 million for the three months ended June 30, 2010 and 2009, respectively. For the six months ended June 30, 2010, the income tax benefit was \$49 million and for the six months ended June 30, 2009, the income tax expense was \$9 million.

Dividends

During the six months ended June 30, 2010, PG&E Corporation paid common stock dividends totaling \$320 million, net of \$6 million that was reinvested in additional shares of common stock by participants in the Dividend Reinvestment and Stock Purchase Plan. On June 16, 2010, the Board of Directors of PG&E Corporation declared dividends of \$0.455 per share, totaling \$178 million, which were paid on July 15, 2010 to shareholders on record as of June 30, 2010.

During the six months ended June 30, 2010, the Utility paid common stock dividends totaling \$358 million to PG&E Corporation.

During the six months ended June 30, 2010, the Utility paid dividends totaling \$7 million to holders of its outstanding series of preferred stock. On June 16, 2010, the Board of Directors of the Utility declared dividends totaling \$4 million on its outstanding series of preferred stock, payable on August 15, 2010, to shareholders on record as of July 30, 2010.

NOTE 6: EARNINGS PER SHARE

Earnings per common share ("EPS") is calculated utilizing the "two-class" method, dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding during the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities. PG&E Corporation's Convertible Subordinated Notes met the criteria of participating securities as the holders were entitled to receive pass-through dividends on a 1:1 basis with shares of common stock.

As of June 30, 2010, all of PG&E Corporation's Convertible Subordinated Notes have been converted into common stock. (See Note 4 above for further discussion.)

The following is a reconciliation of PG&E Corporation's income available for common shareholders and weighted average shares of common stock outstanding for calculating basic EPS:

(in millions, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Basic				
Income available for common shareholders	\$ 333	\$ 388	\$ 591	\$ 629
Less: distributed earnings to common shareholders	178	155	347	309
Undistributed earnings	\$ 155	\$ 233	\$ 244	\$ 320
Allocation of undistributed earnings to common shareholders				
Distributed earnings to common shareholders	\$ 178	\$ 155	\$ 347	\$ 309
Undistributed earnings allocated to common shareholders	149	223	234	306

Total common shareholders earnings	<u>\$ 327</u>	<u>\$ 378</u>	<u>\$ 581</u>	<u>\$ 615</u>
Weighted average common shares outstanding, basic	<u>373</u>	<u>368</u>	<u>372</u>	<u>366</u>
Convertible subordinated notes	<u>15</u>	<u>17</u>	<u>16</u>	<u>17</u>
Weighted average common shares outstanding and participating securities	<u><u>388</u></u>	<u><u>385</u></u>	<u><u>388</u></u>	<u><u>383</u></u>
Net earnings per common share, basic				
Distributed earnings, basic ⁽¹⁾	<u>\$ 0.48</u>	<u>\$ 0.42</u>	<u>\$ 0.93</u>	<u>\$ 0.84</u>
Undistributed earnings, basic	<u>0.40</u>	<u>0.61</u>	<u>0.63</u>	<u>0.84</u>
Total	<u><u>\$ 0.88</u></u>	<u><u>\$ 1.03</u></u>	<u><u>\$ 1.56</u></u>	<u><u>\$ 1.68</u></u>

⁽¹⁾ Distributed earnings, basic may differ from actual per share amounts paid as dividends, as the EPS computation under GAAP requires the use of the weighted average, rather than the actual, number of shares outstanding.

Table of Contents

In calculating diluted EPS, PG&E Corporation applies the “if-converted” method to reflect the dilutive effect of the Convertible Subordinated Notes to the extent that the impact is dilutive when compared to basic EPS. In addition, PG&E Corporation applies the treasury stock method of reflecting the dilutive effect of outstanding stock-based compensation in the calculation of diluted EPS.

The following is a reconciliation of PG&E Corporation’s income available for common shareholders and weighted average shares of common stock outstanding for calculating diluted EPS for three and six months ended June 30, 2010:

	Three Months Ended	Six Months Ended
(in millions, except per share amounts)	June 30, 2010	June 30, 2010
Diluted		
Income available for common shareholders	\$ 333	\$ 591
Add earnings impact of assumed conversion of participating securities:		
Interest expense on convertible subordinated notes, net of tax	4	8
Income available for common shareholders and assumed conversion	<u>\$ 337</u>	<u>\$ 599</u>
Weighted average common shares outstanding, basic	373	372
Add incremental shares from assumed conversions:		
Convertible subordinated notes	15	16
Employee share-based compensation	2	1
Weighted average common shares outstanding, diluted	<u>390</u>	<u>389</u>
Total earnings per common share, diluted	<u>\$ 0.86</u>	<u>\$ 1.54</u>

The following is a reconciliation of PG&E Corporation’s income available for common shareholders and weighted average shares of common stock outstanding for calculating diluted EPS for the three and six months ended June 30, 2009:

	Three Months Ended	Six Months Ended
(in millions, except per share amounts)	June 30, 2009	June 30, 2009
Diluted		
Income available for common shareholders	\$ 388	\$ 629
Less: distributed earnings to common shareholders	155	309
Undistributed earnings	<u>\$ 233</u>	<u>\$ 320</u>
Allocation of undistributed earnings to common shareholders		
Distributed earnings to common shareholders	\$ 155	\$ 309
Undistributed earnings allocated to common shareholders	223	306
Total common shareholders earnings	<u>\$ 378</u>	<u>\$ 615</u>
Weighted average common shares outstanding, basic	368	366
Convertible subordinated notes	17	17
Weighted average common shares outstanding and participating securities, basic	<u>385</u>	<u>383</u>
Weighted average common shares outstanding, basic	368	366
Employee share-based compensation	1	1
Weighted average common shares outstanding, diluted	<u>369</u>	<u>367</u>
Convertible subordinated notes	17	17
Weighted average common shares outstanding and participating securities, diluted	<u>386</u>	<u>384</u>
Net earnings per common share, diluted		
Distributed earnings, diluted	\$ 0.42	\$ 0.84
Undistributed earnings, diluted	0.60	0.83
Total earnings per common share, diluted	<u>\$ 1.02</u>	<u>\$ 1.67</u>

For each of the periods presented above, the calculation of outstanding shares on a diluted basis excluded an insignificant amount of options and securities that were antidilutive.

NOTE 7: DERIVATIVES AND HEDGING ACTIVITIES**Use of Derivative Instruments**

The Utility faces market risk primarily related to electricity and natural gas commodity prices. All of the Utility's risk management activities involving derivatives occur to reduce the volatility of commodity costs on behalf of its customers. The CPUC and the FERC allow the Utility to charge customer rates designed to recover the Utility's reasonable costs of providing services, including the cost to obtain and deliver electricity and natural gas. As these costs are passed through to customers in rates, the Utility's earnings are not exposed to the commodity price risk inherent in the purchase and sale of electricity and natural gas.

The Utility uses both derivative and non-derivative contracts in managing its customers' exposure to commodity-related price risk, including:

- forward contracts that commit the Utility to purchase a commodity in the future;
- swap agreements that require payments to or from counterparties based upon the difference between two prices for a predetermined contractual quantity;
- option contracts that provide the Utility with the right to buy a commodity at a predetermined price; and
- futures contracts that are exchange-traded contracts committing the Utility to make a cash settlement at a specified price and future date.

These instruments are not held for speculative purposes and are subject to certain regulatory requirements.

Commodity-Related Price Risk

Commodity-related price risk management activities that meet the definition of a derivative are recorded at fair value on the Condensed Consolidated Balance Sheets. As long as the ratemaking mechanisms discussed above remain in place and the Utility's risk management activities are carried out in accordance with CPUC directives, the Utility expects to fully recover from customers, in rates, all costs related to commodity-related price risk-related derivative instruments. Therefore, all unrealized gains and losses associated with the change in fair value of these derivative instruments are deferred and recorded within the Utility's regulatory assets and liabilities on the Condensed Consolidated Balance Sheets. (See Note 3 above.) Net realized gains or losses on derivative instruments related to price risk for commodities are recorded in the cost of electricity or the cost of natural gas with corresponding increases or decreases to regulatory balancing accounts for recovery from customers.

The Utility elects the normal purchase and sale exception for qualifying commodity-related derivative instruments. Derivative instruments that require physical delivery, are probable of physical delivery in quantities that are expected to be used by the Utility over a reasonable period in the normal course of business, and do not contain pricing provisions unrelated to the commodity delivered are eligible for the normal purchase and sale exception. The fair value of instruments that are eligible for the normal purchase and sales exception are not reflected in the Condensed Consolidated Balance Sheets.

Table of Contents

The following is a discussion of the Utility's use of derivative instruments intended to mitigate commodity-related price risk for its customers.

Electricity Procurement

The Utility obtains electricity from a diverse mix of resources, including third-party power purchase agreements, amounts allocated under DWR contracts, and its own electricity generation facilities. The amount of electricity the Utility needs to meet the demands of customers and that is not satisfied from the Utility's own generation facilities, existing purchase contracts, or DWR contracts allocated to the Utility's customers is subject to change for a number of reasons, including:

- periodic expirations or terminations of existing electricity purchase contracts, including the DWR's contracts;
- the execution of new electricity purchase contracts;
- fluctuation in the output of hydroelectric and other renewable power facilities owned or under contract;
- changes in the Utility's customers' electricity demands due to customer and economic growth or decline, weather, implementation of new energy efficiency and demand response programs, direct access, and community choice aggregation;
- the acquisition, retirement, or closure of generation facilities; and
- changes in market prices that make it more economical to purchase power in the market rather than use the Utility's existing resources.

The Utility enters into third-party power purchase agreements to ensure sufficient electricity to meet customer needs. The Utility's third-party power purchase agreements are generally accounted for as leases, but certain third-party power purchase agreements are considered derivative instruments. The Utility elects to use the normal purchase and sale exception for eligible derivative instruments.

A portion of the Utility's third-party power purchase agreements contain market-based pricing terms. In order to reduce the volatility in customer rates, the Utility has entered into financial swap contracts to effectively fix the price of future purchases and reduce the cash flow variability associated with fluctuating electricity prices under some of those power purchase agreements. These financial swaps are considered derivative instruments.

Electric Transmission Congestion Revenue Rights

The CAISO controlled electricity transmission grid used by the Utility to transmit power is subject to transmission constraints. As a result, the Utility is subject to financial risk associated with the cost of transmission congestion. The CAISO implemented its new day-ahead wholesale electricity market as part of its Market Redesign and Technology Upgrade on April 1, 2009. The CAISO created congestion revenue rights ("CRRs") to allow market participants, including load-serving entities, to hedge the financial risk of CAISO-imposed congestion charges in the new day-ahead market. The CAISO releases CRRs through an annual and monthly process, each of which includes an allocation phase (in which load-serving entities are allocated CRRs at no cost based on the customer demand or "load" they serve) and an auction phase (in which CRRs are priced at market and available to all market participants). The CRRs held by the Utility are considered derivative instruments.

Natural Gas Procurement (Electric Portfolio)

The Utility's electric procurement portfolio is exposed to natural gas price risk primarily through the Utility-owned natural gas generating facilities, tolling agreements, and natural gas-indexed electricity procurement contracts. In order to reduce the volatility in customer rates, the Utility purchases financial instruments such as futures, swaps, and options to reduce future cash flow variability associated with fluctuating natural gas prices. These financial instruments are considered derivative instruments.

Table of Contents

Natural Gas Procurement (Small Commercial and Residential Customers)

The Utility enters into physical natural gas commodity contracts to fulfill the needs of its small commercial and residential, or “core,” customers. (The Utility does not procure natural gas for industrial and large commercial, or “non-core,” customers.) Changes in temperature cause natural gas demand to vary daily, monthly, and seasonally. Consequently, varying volumes of gas may be purchased or sold in the multi-month, monthly, and to a lesser extent, daily spot markets to balance such seasonal supply and demand. The Utility purchases financial instruments such as swaps and options as part of its core winter hedging program in order to manage customer exposure to high gas prices during peak winter months. These financial instruments are considered derivative instruments

Other Risk

PG&E Corporation issued 16,370,779 shares of common stock upon conversion of the \$247 million principal amount of PG&E Corporation’s Convertible Subordinated Notes at a conversion price of \$15.09 per share. Prior to conversion, the holders of the Convertible Subordinated Notes were entitled to receive “pass-through dividends” determined by multiplying the cash dividend paid by PG&E Corporation per share of common stock by a number equal to the principal amount of the Convertible Subordinated Notes divided by the conversion prices. These “pass-through dividends” were classified as embedded derivative instruments and bifurcated from the Convertible Subordinated Notes and recorded at fair value in PG&E Corporation’s Condensed Consolidated Financial Statements. Upon conversion of the notes, the dividend participation rights ceased to exist. For the six months ended June 30, 2010, PG&E Corporation paid \$14 million of pass-through dividends associated with the Convertible Subordinated Notes. (See Note 4 above for further information.)

Volume of Derivative Activity

At June 30, 2010, the volume of PG&E Corporation’s and the Utility’s outstanding derivative contracts were as follows:

Underlying Product	Instruments	Contract Volume ⁽¹⁾			
		Less Than 1 Year	Greater Than 1 Year But Less Than 3 Years	3 Years But Less Than 5 Years	Greater Than 5 Years ⁽²⁾
Natural Gas ⁽³⁾ (MMBtus ⁽⁴⁾)	Forwards, Futures, and Swaps	366,497,007	254,825,476	15,180,000	—
	Options	222,787,080	142,750,000	15,600,000	—
Electricity (Megawatt-hours)	Forwards, Futures, and Swaps	5,059,221	8,305,259	4,446,487	5,388,528
	Options	628,718	—	196,632	463,860
	Congestion Revenue Rights	59,215,388	67,233,474	67,167,528	103,387,526

⁽¹⁾ Amounts shown reflect the total gross derivative volumes by commodity type that are expected to settle in each time period.

⁽²⁾ Derivatives in this category expire between 2015 and 2022.

⁽³⁾ Amounts shown are for the combined positions of the electric and core gas portfolios.

⁽⁴⁾ Million British Thermal Units.

Presentation of Derivative Instruments in the Financial Statements

In PG&E Corporation’s and the Utility’s Condensed Consolidated Balance Sheets, derivative instruments are presented on a net basis by counterparty where the right of offset exists under a master netting agreement. The net balances include outstanding cash collateral associated with derivative positions.

At June 30, 2010, PG&E Corporation’s and the Utility’s outstanding derivative balances were as follows:

	Gross Derivative		Cash Collateral	Total Derivative
(in millions)	Balance (1)	Netting (2)	(2)	Balances
Commodity Risk (PG&E Corporation and Utility)				
Current assets – prepaid expenses and other	\$ 30	\$ (18)	\$ 49	\$ 61
Other noncurrent assets – other	81	(62)	65	84
Current liabilities – other	(342)	18	147	(177)
Noncurrent liabilities – other	(521)	62	129	(330)
Total commodity risk	\$ (752)	\$ —	\$ 390	\$ (362)

⁽¹⁾ See Note 8 below for a discussion of the valuation techniques used to calculate the fair value of these instruments.

⁽²⁾ Positions, by counterparty, are netted where the intent and legal right to offset exist in accordance with master netting agreements.

Table of Contents

At December 31, 2009, PG&E Corporation's and the Utility's outstanding derivative balances were as follows:

<u>(in millions)</u>	<u>Gross Derivative Balance</u>	<u>Netting (1)</u>	<u>Cash Collateral (1)</u>	<u>Total Derivative Balances</u>
Commodity Risk (PG&E Corporation and Utility)				
Current assets – prepaid expenses and other	\$ 76	\$ (12)	\$ 77	\$ 141
Other noncurrent assets – other	64	(44)	13	33
Current liabilities – other	(231)	12	54	(165)
Noncurrent liabilities – other	(390)	44	44	(302)
Total commodity risk	\$ (481)	\$ —	\$ 188	\$ (293)
Other Risk Instruments ⁽²⁾ (PG&E Corporation Only)				
Current liabilities – other	\$ (13)	\$ —	\$ —	\$ (13)
Total derivatives	\$ (494)	\$ —	\$ 188	\$ (306)

- (1) Positions, by counterparty, are netted where the intent and legal right to offset exist in accordance with master netting agreements.
- (2) This category relates to the dividend participation rights of PG&E Corporation's Convertible Subordinated Notes, which were fully converted as of June 30, 2010.

Gains and losses recorded on PG&E Corporation's and the Utility's derivative instruments were as follows:

<u>(in millions)</u>	Commodity Risk (PG&E Corporation and Utility)			
	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Unrealized gain/(loss) - regulatory assets and liabilities ⁽¹⁾	\$ 18	\$ 147	\$ (271)	\$ (160)
Realized gain/(loss) - cost of electricity ⁽²⁾	(175)	(223)	(281)	(425)
Realized gain/(loss) - cost of natural gas ⁽²⁾	(5)	(6)	(44)	(29)
Total commodity risk instruments	\$ (162)	\$ (82)	\$ (596)	\$ (614)

- (1) Unrealized gains and losses on commodity risk-related derivative instruments are recorded to regulatory assets or liabilities, rather than being recorded to the Condensed Consolidated Statements of Income. These amounts exclude the impact of cash collateral postings.
- (2) These amounts are fully passed through to customers in rates. Accordingly, net income was not impacted by realized amounts on these instruments.

Cash inflows and outflows associated with the settlement of all derivative instruments are recognized in operating cash flows on PG&E Corporation's and the Utility's Condensed Consolidated Statements of Cash Flows.

The majority of the Utility's commodity risk-related derivative instruments contain collateral posting provisions tied to the Utility's credit rating from each of the major credit rating agencies. If the Utility's credit rating were to fall below investment grade, the Utility would be required to immediately post additional cash to fully collateralize its net liability derivative positions.

At June 30, 2010, the additional cash collateral the Utility would be required to post if its credit-risk-related contingent features were triggered was as follows:

<u>(in millions)</u>	
Derivatives in a liability position with credit-risk-related contingencies that are not fully collateralized	\$(708)
Related derivatives in an asset position	78
Collateral posting in the normal course of business related to these derivatives	204
Net position of derivative contracts/additional collateral posting requirements ⁽¹⁾	\$(426)

- (1) This calculation excludes the impact of closed but unpaid positions, as their settlement is not impacted by any of the Utility's credit-risk-related contingencies.

Table of Contents

NOTE 8: FAIR VALUE MEASUREMENTS

PG&E Corporation and the Utility measure their cash equivalents, trust assets, and price risk management instruments at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 —Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 —Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 —Unobservable inputs which are supported by little or no market activities.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. (See Note 11 of the Notes to the Consolidated Financial Statements in the 2009 Annual Report for further discussion of fair value measurements.)

Assets and liabilities measured at fair value on a recurring basis for PG&E Corporation and the Utility are summarized below (money market investments and assets held in rabbi trusts are held by PG&E Corporation and not the Utility):

Fair Value Measurements at June 30, 2010

<u>(in millions)</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money market investments	\$ 204	\$ —	\$ —	\$ 204
Nuclear decommissioning trusts				
U.S. equity securities ⁽¹⁾	706	20	—	726
Non-U.S. equity securities	282	—	—	282
U.S. government and agency securities	720	58	—	778
Municipal securities	5	87	—	92
Other fixed income securities	—	79	—	79
Total nuclear decommissioning trusts ⁽²⁾	<u>1,713</u>	<u>244</u>	<u>—</u>	<u>1,957</u>
Price risk management instruments				
Electric ⁽³⁾	74	—	—	74
Total price risk management instruments	<u>74</u>	<u>—</u>	<u>—</u>	<u>74</u>
Rabbi trusts				
Equity securities	23	—	—	23
Life insurance contracts	—	64	—	64
Total rabbi trusts	<u>23</u>	<u>64</u>	<u>—</u>	<u>87</u>
Long-term disability trust				
U.S. equity securities ⁽¹⁾	3	23	—	26
Corporate debt securities ⁽¹⁾	—	142	—	142
Total long-term disability trust	<u>3</u>	<u>165</u>	<u>—</u>	<u>168</u>
Total assets	<u>\$2,017</u>	<u>\$ 473</u>	<u>\$ —</u>	<u>\$2,490</u>
Liabilities:				
Price risk management instruments				
Electric ⁽⁴⁾	—	35	358	393
Gas ⁽⁵⁾	—	1	42	43
Total price risk management instruments	<u>—</u>	<u>36</u>	<u>400</u>	<u>436</u>
Other liabilities	—	—	2	2
Total liabilities	<u>\$ —</u>	<u>\$ 36</u>	<u>\$ 402</u>	<u>\$ 438</u>

⁽¹⁾ Level 2 balances include commingled funds, which are comprised primarily of securities traded publicly on exchanges. Price quotes for the assets held by the funds are readily observable and available.

⁽²⁾ Excludes deferred taxes on appreciation of investment value.

⁽³⁾ Balances include the impact of netting adjustments of \$280 million to Level 1. Includes natural gas for electric portfolio.

⁽⁴⁾ Balances include the impact of netting adjustments of \$43 million to Level 2, and \$33 million to Level 3. Includes natural gas for electric portfolio.

⁽⁵⁾ Balances include the impact of netting adjustments of \$34 million to Level 3. Includes natural gas for core customers.

Fair Value Measurements at December 31, 2009

(in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Money market investments	\$ 189	\$ —	\$ 4	\$ 193
Nuclear decommissioning trusts				
U.S. equity securities ⁽¹⁾	762	6	—	768
Non-U.S. equity securities	344	—	—	344
U.S. government and agency securities	653	51	—	704
Municipal securities	1	89	—	90
Other fixed income securities	—	108	—	108
Total nuclear decommissioning trusts ⁽²⁾	1,760	254	—	2,014
Rabbi trusts				
Equity securities	21	—	—	21
Life insurance contracts	60	—	—	60
Total rabbi trusts	81	—	—	81
Long-term disability trust				
U.S. equity securities ⁽¹⁾	52	23	—	75
Corporate debt securities ⁽¹⁾	—	113	—	113
Total long-term disability trust	52	136	—	188
Total assets	\$2,082	\$ 390	\$ 4	\$2,476
Liabilities:				
Dividend participation rights	\$ —	\$ —	\$ 12	\$ 12
Price risk management instruments				
Electric ⁽³⁾	2	73	157	232
Gas ⁽⁴⁾	1	—	60	61
Total price risk management instruments	3	73	217	293
Other liabilities	—	—	3	3
Total liabilities	\$ 3	\$ 73	\$ 232	\$ 308

- ⁽¹⁾ Level 2 balances include commingled funds, which are comprised primarily of securities traded publicly on exchanges. Price quotes for the assets held by the funds are readily observable and available.
- ⁽²⁾ Excludes taxes on appreciation of investment value.
- ⁽³⁾ Balances include the impact of netting adjustments of \$108 million to Level 1, \$48 million to Level 2, and \$19 million to Level 3.
- ⁽⁴⁾ Includes natural gas for electric portfolio.
- Balances include the impact of netting adjustments of \$13 million to Level 3. Includes natural gas for core customers.

Trust Assets

The assets held by the nuclear decommissioning trusts, the rabbi trusts related to the non-qualified deferred compensation plans, and the long-term disability trust are comprised primarily of equity securities and debt securities. Equity securities primarily include investments in common stock and commingled funds comprised of equity across multiple industry sectors in the U.S. and other regions of the world. Debt securities are comprised primarily of fixed income securities that include U.S. government and agency securities, municipal securities, and corporate debt securities. Equity securities and debt securities are generally valued based on unadjusted prices in active markets for identical transactions or unadjusted prices in active markets for similar transactions. A market based valuation approach is generally used to estimate the fair value of debt securities classified as Level 2 instruments in the tables above. Under a

Table of Contents

market approach, fair values are determined based on evaluated pricing data, such as broker quotes, for similar securities adjusted for observable differences. Significant inputs used in the valuation model generally include benchmark yield curves and issuer spreads. The external credit rating, coupon rate, and maturity of each security are considered in the valuation, as applicable. No trust assets were measured at fair value using significant unobservable inputs (Level 3) at June 30, 2010.

Price Risk Management Instruments

Price risk management instruments are composed of physical and financial derivative contracts, including futures, forwards, swaps, options, and CRRs that are exchange-traded or over-the-counter traded contracts. Futures, forwards, and swaps are valued using observable market prices for the underlying commodity or an identical instrument. As observable market prices are available, these instruments are classified as Level 1 or Level 2 instruments.

Certain exchange-traded contracts are classified as Level 2 measurements because the contract term extends to a point at which the market is no longer considered active but where prices are still observable. This determination is based on an analysis of the relevant characteristics of the market such as trading hours and volumes, frequency of available quotes, and open interest. In addition, a number of over the counter contracts have been valued using unadjusted exchange prices of similar instruments in active markets. Such instruments are classified as Level 2 measurements as they are not exchange-traded instruments.

All energy-related options are classified as Level 3 and are valued using a standard option pricing model with various assumptions, including forward prices for the underlying commodity, time value at a risk free rate, and volatility. Some of these assumptions are derived from internal models as they are unobservable. The Utility's demand response contracts with third-party aggregators of retail electricity customers contain a call option entitling the Utility to require that the aggregator reduce electric usage by the aggregator's customers at times of peak energy demand or in response to a CAISO alert or other emergency.

The Utility holds CRRs to hedge financial risk of CAISO-imposed congestion charges in the day-ahead markets. CRRs are valued based on the forecasted settlement price at the delivery points underlying the CRR using internal models. The Utility also uses the most current annual auction prices published by the CAISO to calibrate internal models. Limited market data is available between auction dates; therefore, CRRs are classified as Level 3 measurements.

The Utility enters into power purchase agreements for the purchase of electricity to meet the demand of its customers. Certain power purchase agreements meet the definition of a derivative instrument. Some of these power purchase agreements do not qualify as normal purchases and sales, therefore, the fair value of these power purchase agreements are recorded on the Condensed Consolidated Balance Sheets. The Utility uses internal models to determine the fair value of these power purchase agreements. These power purchase agreements include contract terms that extend beyond the point for which an active market exists. The Utility utilizes market data for the underlying commodity to the extent that it is available in determining the fair value. For periods where market data is not available, the Utility extrapolates forward prices based on historical data. These power purchase agreements are considered Level 3 instruments as the determination of their fair value includes the use of unobservable forward prices.

Transfers between Levels

PG&E Corporation and the Utility recognize any transfers between levels in the fair value hierarchy as of the end of the reporting period. There were no significant transfers between levels for the six month period ended June 30, 2010. The following tables present reconciliations for assets and liabilities measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3), for the three and six month periods ended June 30, 2010 and 2009:

(in millions)	PG&E Corporation Only		PG&E Corporation and the Utility					Total
	Money Market	Dividend Participation Rights	Price Risk Management Instruments	Nuclear Decommissioning Trusts Equity Securities (1)	Long-Term Disability Equity Securities	Long-Term Disability Corp. Debt Securities	Other Liabilities	
Asset (liability) balance as of March 31, 2010	\$ —	\$ (7)	\$ (336)	\$ —	\$ —	\$ —	\$ (1)	\$(344)
Realized and unrealized gains (losses):								
Included in earnings	—	—	—	—	—	—	—	—
Included in regulatory assets and liabilities or balancing accounts	—	—	(64)	—	—	—	(1)	(65)
Purchases, issuances, and settlements	—	7	—	—	—	—	—	7
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—
Asset (liability) balance as of June 30, 2010	\$ —	\$ —	\$ (400)	\$ —	\$ —	\$ —	\$ (2)	\$(402)

Excludes deferred taxes on appreciation of investment value.

Table of Contents

	PG&E Corporation Only		PG&E Corporation and the Utility					Total
	Money Market	Dividend Participation Rights	Price Risk Management Instruments	Nuclear Decommission- ing Trusts Equity Securities ⁽¹⁾	Long- Term Disability Equity Securities	Long-Term Disability Corp. Debt Securities	Other Liabilities	
(in millions)								
Asset (liability) balance as of March 31, 2009	\$ 8	\$ (33)	\$ (176)	\$ 4	\$ 47	\$ 24	\$ (1)	\$(127)
Realized and unrealized gains (losses):								
Included in earnings	—	(1)	—	—	10	—	—	9
Included in regulatory assets and liabilities or balancing accounts	—	—	(13)	1	—	—	(2)	(14)
Purchases, issuances, and settlements	(3)	7	—	—	—	—	—	4
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—
Asset (liability) balance as of June 30, 2009	<u>\$ 5</u>	<u>\$ (27)</u>	<u>\$ (189)</u>	<u>\$ 5</u>	<u>\$ 57</u>	<u>\$ 24</u>	<u>\$ (3)</u>	<u>\$(128)</u>

⁽¹⁾ Excludes deferred taxes on appreciation of investment value.

	PG&E Corporation Only		PG&E Corporation and the Utility					Total
	Money Market	Dividend Participation Rights	Price Risk Management Instruments	Nuclear Decommission- ing Trusts Equity Securities ⁽¹⁾	Long- Term Disability Equity Securities	Long-Term Disability Corp. Debt Securities	Other Liabilities	
(in millions)								
Asset (liability) balance as of December 31, 2009	\$ 4	\$ (12)	\$ (217)	\$ —	\$ —	\$ —	\$ (3)	\$(228)
Realized and unrealized gains (losses):								
Included in earnings	—	—	—	—	—	—	—	—
Included in regulatory assets and liabilities or balancing accounts	—	—	(183)	—	—	—	1	(182)
Purchases, issuances, and settlements	(4)	12	—	—	—	—	—	8
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—
Asset (liability) balance as of June 30, 2010	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (400)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$(402)</u>

⁽¹⁾ Excludes deferred taxes on appreciation of investment value.

Table of Contents

	PG&E Corporation Only		PG&E Corporation and the Utility					
	Money Market	Dividend Participation Rights	Price Risk Management Instruments	Nuclear Decommissioning Trusts Equity Securities ⁽¹⁾	Long-Term Disability Equity Securities	Long-Term Disability Corp. Debt Securities	Other Liabilities	Total
(in millions)								
Asset (liability) balance as of December 31, 2008	\$ 12	\$ (42)	\$ (156)	\$ 5	\$ 54	\$ 24	\$ (2)	\$(105)
Realized and unrealized gains (losses):								
Included in earnings	—	1	—	—	3	—	—	4
Included in regulatory assets and liabilities or balancing accounts	—	—	(33)	—	—	—	(1)	(34)
Purchases, issuances, and settlements	(7)	14	—	—	—	—	—	7
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—
Asset (liability) balance as of June 30, 2009	\$ 5	\$ (27)	\$ (189)	\$ 5	\$ 57	\$ 24	\$ (3)	\$(128)

⁽¹⁾ Excludes deferred taxes on appreciation of investment value.

Financial Instruments

The Utility values its long-term debt using quoted market prices that are readily available. The carrying amount and fair value of PG&E Corporation's and the Utility's financial instruments were as follows (the table below excludes financial instruments with carrying values that approximate their fair values):

	At June 30, 2010		At December 31, 2009	
	Carrying Amount	Fair Value ⁽²⁾	Carrying Amount	Fair Value ⁽²⁾
(in millions)				
Debt (Note 4):				
PG&E Corporation ⁽¹⁾	\$ —	\$ —	\$ 597	\$1,096
Utility	9,540	10,553	9,240	9,824
Energy recovery bonds	1,031	1,171	1,213	1,269

⁽¹⁾ PG&E Corporation Convertible Subordinated Notes were no longer outstanding as of June 30, 2010.

⁽²⁾ Fair values are determined using readily available quoted market prices.

The Utility classifies its investments held in the nuclear decommissioning trust as "available-for-sale." As the day-to-day investing activities of the trusts are managed by external investment managers, the Utility is unable to assert that it has the intent and ability to hold investments to maturity. Therefore, all unrealized losses are considered other-than-temporary impairments. Gains or losses on the nuclear decommissioning trust investments are refundable or recoverable, respectively, from customers. Therefore, trust earnings are deferred and included in the regulatory liability for recoveries in excess of ARO. There is no impact on the Utility's earnings or accumulated other comprehensive income. (See Note 3 above for further discussion.)

Table of Contents

The following table summarizes unrealized gains and losses related to available-for-sale investments held in the Utility's nuclear decommissioning trusts:

	Amortized	Total	Total	Estimated
	Cost	Unrealized	Unrealized	(1)
		Gains	Losses	Fair Value
(in millions)				
As of June 30, 2010				
U.S. equity securities	\$ 360	\$ 371	\$ (5)	\$ 726
Non-U.S. equity securities	177	109	(4)	282
U.S. government and agency securities	698	80	—	778
Municipal securities	91	2	(1)	92
Other fixed income securities	77	2	—	79
Total	\$ 1,403	\$ 564	\$ (10)	\$ 1,957
As of December 31, 2009				
U.S. equity securities	\$ 344	\$ 425	\$ (1)	\$ 768
Non-U.S. equity securities	182	163	(1)	344
U.S. government and agency securities	656	52	(4)	704
Municipal securities	89	1	—	90
Other fixed income securities	108	2	(2)	108
Total	\$ 1,379	\$ 643	\$ (8)	\$ 2,014

(1) Excludes taxes on appreciation of investment value.

The following table summarizes the estimated fair value of debt securities classified by the contractual maturity date of the security:

	At June 30,
	2010
(in millions)	
Less than 1 year	\$ 40
1–5 years	424
5–10 years	248
More than 10 years	237
Total maturities of debt securities	\$ 949

The following table provides a summary of activity for available-for-sale securities:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
(in millions)				
Proceeds received from sales of securities	\$ 348	\$ 567	\$ 685	\$ 954
Gross realized gains on sales of securities held as available-for-sale	7	4	22	12
Gross realized losses on sales of securities held as available-for-sale	(1)	(16)	(6)	(50)

In general, investments held in the nuclear decommissioning trusts are exposed to various risks, such as interest rate, credit, and market volatility risks. It is reasonably possible that changes in the market values of investment securities could occur in the near term, and such changes could materially affect the trusts' fair value.

NOTE 9: RELATED PARTY AGREEMENTS AND TRANSACTIONS

The Utility and other subsidiaries provide and receive various services to and from their parent, PG&E Corporation, and among themselves. The Utility and PG&E Corporation exchange administrative and professional services in support of operations. Services provided directly to PG&E Corporation by the Utility are priced at the higher of fully loaded cost (i.e., direct cost of good or service and allocation of overhead costs) or fair market value, depending on the nature of the services. Services provided directly to the Utility by PG&E Corporation are generally priced at the lower of fully loaded cost or fair market value, depending on the nature and value of the services. PG&E Corporation also allocates various corporate administrative and general costs to the Utility and other subsidiaries using agreed-upon allocation factors, including the number of employees, operating and maintenance expenses, total assets, and other cost allocation methodologies. Management believes that the methods used to allocate expenses are reasonable and meet the reporting and accounting requirements of its regulatory agencies.

The Utility's significant related party transactions were as follows:

(in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Utility revenues from:				
Administrative services provided to PG&E Corporation	\$ 2	\$ 1	\$ 3	\$ 2
Utility expenses from:				
Administrative services received from PG&E Corporation	\$ 9	\$ 14	\$ 25	\$ 33
Utility employee benefit due to PG&E Corporation	5	3	15	9

At June 30, 2010 and December 31, 2009, the Utility had a receivable of \$60 million and \$26 million, respectively, from PG&E Corporation included in accounts receivable – other and other noncurrent assets – other on the Utility's Condensed Consolidated Balance Sheets, and a payable of \$12 million and \$16 million, respectively, to PG&E Corporation included in accounts payable – other on the Utility's Condensed Consolidated Balance Sheets.

NOTE 10: RESOLUTION OF REMAINING CHAPTER 11 DISPUTED CLAIMS

Various electricity suppliers filed claims in the Utility's proceeding under Chapter 11 seeking payment for energy supplied to the Utility's customers through the wholesale electricity markets operated by the CAISO and the California Power Exchange ("PX") between May 2000 and June 2001. These claims, which the Utility disputes, are being addressed in various FERC and judicial proceedings in which the State of California, the Utility, and other electricity purchasers are seeking refunds from electricity suppliers, including municipal and governmental entities, for overcharges incurred in the CAISO and the PX wholesale electricity markets between May 2000 and June 2001. At June 30, 2010 and December 31, 2009, the Utility held \$512 million and \$515 million in escrow, respectively, including interest earned, for payment of the remaining net disputed claims. These amounts are included within restricted cash on the Condensed Consolidated Balance Sheets.

While the FERC and judicial proceedings have been pending, the Utility entered into a number of settlements with various electricity suppliers to resolve some of these disputed claims and to resolve the Utility's refund claims against these electricity suppliers. These settlement agreements provide that the amounts payable by the parties are, in some instances, subject to adjustment based on the outcome of the various refund offset and interest issues being considered by the FERC. The proceeds from these settlements, after deductions for contingencies based on the outcome of the various refund offset and interest issues being considered by the FERC, will continue to be refunded to customers in rates. Additional settlement discussions with other electricity suppliers are ongoing. Any net refunds, claim offsets, or other credits that the Utility receives from energy suppliers through resolution of the remaining disputed claims, either through settlement or the conclusion of the various FERC and judicial proceedings, will also be credited to customers.

The following table presents the changes in the remaining disputed claims liability and interest accrued from December 31, 2009 to June 30, 2010:

(in millions)	
Balance at December 31, 2009	\$946
Interest accrued	15
Less: supplier settlements	(41)
Balance at June 30, 2010	<u>\$920</u>

Table of Contents

At June 30, 2010, the Utility's net disputed claims liability was \$920 million, consisting of \$746 million of remaining disputed claims (classified on the Condensed Consolidated Balance Sheets within accounts payable – disputed claims and customer refunds) and interest accrued at the FERC-ordered rate of \$668 million (classified on the Condensed Consolidated Balance Sheets within interest payable) partially offset by accounts receivable from the CAISO and the PX of \$494 million (classified on the Condensed Consolidated Balance Sheets within accounts receivable – other).

Interest accrues on the liability for disputed claims at the FERC-ordered rate, which is higher than the rate earned by the Utility on the escrow balance. Although the Utility has been collecting the difference between the accrued interest and the earned interest from customers, this amount is not held in escrow. If the amount of interest accrued at the FERC-ordered rate is greater than the amount of interest ultimately determined to be owed with respect to disputed claims, the Utility would refund to customers any excess net interest collected from customers. The amount of any interest that the Utility may be required to pay will depend on the final amounts to be paid by the Utility with respect to the disputed claims and when such interest is paid.

PG&E Corporation and the Utility are unable to predict when the FERC or judicial proceedings that are still pending will be resolved, and the amount of any potential refunds that the Utility may receive or the amount of disputed claims, including interest that the Utility will be required to pay.

NOTE 11: COMMITMENTS AND CONTINGENCIES

PG&E Corporation and the Utility have substantial financial commitments in connection with agreements entered into to support the Utility's operating activities. PG&E Corporation and the Utility also have significant contingencies arising from their operations, including contingencies related to guarantees, regulatory proceedings, nuclear operations, environmental compliance and remediation, tax matters, and legal matters.

Commitments

Utility

Third-Party Power Purchase Agreements

As part of the ordinary course of business, the Utility enters into various agreements to purchase power and electric capacity. The price of purchased power may be fixed or variable. Variable pricing is generally based on the current market price of either gas or electricity at the date of purchase.

At June 30, 2010, the undiscounted future expected power purchase agreement payments were as follows:

(in millions)	
2010	\$ 1,202
2011	2,329
2012	2,466
2013	2,726
2014	2,739
Thereafter	44,625
Total	<u>\$56,087</u>

Payments made by the Utility under power purchase agreements amounted to \$1,094 million and \$1,154 million for the six months ended June 30, 2010 and June 30, 2009, respectively. The amounts above do not include payments related to the DWR purchases for the benefit of the Utility's customers, as the Utility only acts as an agent for the DWR.

Some of the power purchase agreements that the Utility entered into with independent power producers that are qualifying facilities ("QF"s) are treated as capital leases. The following table shows the future fixed capacity payments due under the QF contracts that are treated as capital leases. (These amounts are also included in the table above.) The fixed capacity payments are discounted to their present value using the Utility's incremental borrowing rate at the inception of the leases. The amount of this discount is shown as the amount representing interest.

Table of Contents

(in millions)	
2010	\$ 29
2011	50
2012	50
2013	50
2014	42
Thereafter	162
Total fixed capacity payments	383
Amount representing interest	81
Present value of fixed capacity payments	<u>\$302</u>

Minimum lease payments associated with the lease obligation are included in Cost of electricity on PG&E Corporation's and the Utility's Condensed Consolidated Statements of Income. The timing of the Utility's recognition of the lease expense conforms to the ratemaking treatment for the Utility's recovery of the cost of electricity. The QF contracts that are treated as capital leases expire between April 2014 and September 2021.

At June 30, 2010 and December 31, 2009, PG&E Corporation and the Utility had, respectively, \$33 million and \$32 million included in current liabilities – other, and \$269 million and \$282 million included in noncurrent liabilities – other, respectively, representing the present value of the fixed capacity payments due under these contracts recorded on PG&E Corporation's and the Utility's Condensed Consolidated Balance Sheets. The corresponding assets at June 30, 2010 and December 31, 2009 of \$302 million and \$314 million, including amortization of \$106 million and \$94 million, respectively, are included in property, plant, and equipment on PG&E Corporation's and the Utility's Condensed Consolidated Balance Sheets.

Natural Gas Supply, Transportation, and Storage Commitments

The Utility purchases natural gas directly from producers and marketers in both Canada and the United States to serve its core customers. The contract lengths and natural gas sources of the Utility's portfolio of natural gas procurement contracts can fluctuate based on market conditions. The Utility also contracts for natural gas transportation to transport natural gas from the points at which the Utility takes delivery (typically in Canada and the southwestern United States supply basins) to the points at which the Utility's natural gas transportation system begins. In addition, the Utility has contracted for gas storage services in its market area in order to better meet winter peak customer loads.

The Utility also purchases natural gas to fuel its owned-generation facilities. Contract terms typically range in length from one to three years.

At June 30, 2010, the Utility's undiscounted obligations for natural gas purchases, gas transportation services, and gas storage were as follows:

(in millions)	
2010	\$ 443
2011	455
2012	78
2013	59
2014	44
Thereafter	115
Total ⁽¹⁾	<u>\$1,194</u>

⁽¹⁾ Total does not include Ruby Pipeline reservation cost commitment described below.

Payments for natural gas purchases, gas transportation services, and gas storage amounted to \$912 million and \$737 million for the six months ended June 30, 2010 and June 30, 2009, respectively.

Ruby Pipeline

On April 5, 2010, the FERC issued an order authorizing El Paso Corporation to construct, operate, and maintain its proposed 675-mile gas transmission pipeline ("Ruby Pipeline"), which would begin at the Opal Hub in Wyoming and terminate at the Malin, Oregon, interconnect, near California's northern border and have an initial capacity of 1.5 billion cubic feet per day. Construction of the project is scheduled to begin in the third quarter of 2010, and the facilities are scheduled to be in service in the spring of 2011. The Utility has contracted for firm service rights on the Ruby Pipeline of approximately 0.4 billion cubic feet per day beginning in 2011. Under these agreements the Utility will have a cumulative commitment of \$1.4 billion over 15 years.

Table of Contents

Nuclear Fuel Agreements

The Utility has entered into several purchase agreements for nuclear fuel. These agreements have terms ranging from 1 to 16 years and are intended to ensure long-term fuel supply. The contracts for uranium and for conversion and enrichment services provide for 100% coverage of reactor requirements through 2014, while contracts for fuel fabrication services provide for 100% coverage of reactor requirements through 2011. The Utility relies on a number of international producers of nuclear fuel in order to diversify its sources and provide security of supply. Pricing terms are also diversified, ranging from market-based prices to base prices that are escalated using published indices.

At June 30, 2010, the undiscounted obligations under nuclear fuel agreements were as follows:

(in millions)	
2010	\$ 58
2011	82
2012	69
2013	107
2014	135
Thereafter	1,215
Total	<u>\$1,666</u>

Payments for nuclear fuel amounted to \$95 million and \$61 million for the six months ended June 30, 2010 and June 30, 2009, respectively.

Contingencies

PG&E Corporation

PG&E Corporation retains a guarantee related to certain obligations of its former subsidiary, National Energy & Gas Transmission, Inc. ("NEGT"), that were issued to the purchaser of an NEG-T subsidiary company in 2000. PG&E Corporation's primary remaining exposure relates to any potential environmental obligations that were known to NEG-T at the time of the sale but not disclosed to the purchaser, and is limited to \$150 million. PG&E Corporation has not received any claims nor does it consider it probable that any claims will be made under the guarantee. PG&E Corporation believes that its potential exposure under this guarantee would not have a material impact on its financial condition or results of operations.

Utility

Energy Efficiency Programs and Incentive Ratemaking

The CPUC has established a ratemaking mechanism to provide incentives to the California investor-owned utilities to meet the CPUC's energy savings goals through implementation of the utilities' 2006-2008 energy efficiency programs. In accordance with this mechanism, the CPUC has awarded the Utility interim incentive revenues totaling \$75 million through December 31, 2009 based on the energy savings achieved through implementation of the Utility's energy efficiency programs during the 2006 through 2008 program cycle. The amount of additional incentive revenues the Utility may earn, if any, is subject to the CPUC's completion of the final true-up process. In April 2010, the assigned CPUC commissioner directed the parties to hold settlement discussions in an effort to agree on the 2010 final true-up amounts. The CPUC commissioner also directed the Energy Division to calculate various true-up amounts based on a range of possible scenarios that use different assumptions about energy savings, goals, and costs, noting that the CPUC can consider alternative approaches to calculate the final true-up amounts instead of relying solely on the Energy Division's evaluation of the final energy savings over the 2006-2008 program cycle.

On May 4, 2010, the Energy Division released various scenarios of additional incentive amounts using data from the Energy Division's draft evaluation report released on April 15, 2010. The calculation scenarios for the Utility range from a penalty of \$75 million, based on a scenario using the Energy Division's evaluated results, to a reward of \$105 million. The Energy Division's draft report did not include the scenario jointly proposed by the utilities. On July 9, 2010, the Energy Division released its final evaluation report and updated the results of its scenario calculations. The range of possible final true-up amounts contained in the final scenario report are substantially the same as the amounts contained in the scenario report released in May 2010. On July 16, 2010, the utilities submitted data to the CPUC to support the utilities' joint scenario using the verified results in the Energy Division's final evaluation report. Based on this scenario, the Utility would be entitled to additional incentive revenues of approximately \$63 million.

Table of Contents

The CPUC is scheduled to issue a final decision to complete the true-up process by the end of 2010. PG&E Corporation and the Utility are unable to predict the amount, if any, of additional incentive revenues or penalties the Utility may be assessed for the 2006-2008 program cycle.

Spent Nuclear Fuel Storage Proceedings

As part of the Nuclear Waste Policy Act of 1982, Congress authorized the U.S. Department of Energy (“DOE”) and electric utilities with commercial nuclear power plants to enter into contracts under which the DOE would be required to dispose of the utilities’ spent nuclear fuel and high-level radioactive waste no later than January 31, 1998, in exchange for fees paid by the utilities. In 1983, the DOE entered into a contract with the Utility to dispose of nuclear waste from the Utility’s two nuclear generating units at Diablo Canyon and its retired nuclear facility at Humboldt Bay.

Because the DOE failed to develop a permanent storage site, the Utility obtained a permit from the Nuclear Regulatory Commission (“NRC”) to build an on-site dry cask storage facility to store spent fuel at Diablo Canyon through at least 2024. The construction of the dry cask storage facility is complete. During 2009 the Utility moved all the spent nuclear fuel that was scheduled to be moved into dry cask storage. An appeal of the NRC’s issuance of the permit is still pending in the U.S. Court of Appeals for the Ninth Circuit. The appellants claim that the NRC failed to adequately consider environmental impacts of a potential terrorist attack at Diablo Canyon. The Ninth Circuit has set November 4, 2010 as the date for oral argument.

As a result of the DOE’s failure to build a repository for nuclear waste, the Utility and other nuclear power plant owners sued the DOE to recover costs that they incurred to build on-site spent nuclear fuel storage facilities. The Utility sought to recover \$92 million of costs that it incurred through 2004. After several years of litigation, on March 30, 2010, the U.S. Court of Federal Claims awarded the Utility \$89 million. The DOE filed an appeal of this decision on May 28, 2010.

The Utility incurred approximately \$188 million between 2005 and 2009 to build on-site storage facilities. The Utility will also seek to recover these costs from the DOE. Amounts recovered from the DOE will be credited to customers.

Nuclear Insurance

The Utility has several types of nuclear insurance for the two nuclear operating units at Diablo Canyon and for its retired nuclear generation facility at Humboldt Bay Unit 3. The Utility has insurance coverage for property damages and business interruption losses as a member of Nuclear Electric Insurance Limited (“NEIL”). NEIL is a mutual insurer owned by utilities with nuclear facilities. NEIL provides property damage and business interruption coverage of up to \$3.2 billion per incident for Diablo Canyon. In addition, NEIL provides \$131 million of property damage insurance for Humboldt Bay Unit 3. Under this insurance, if any nuclear generating facility insured by NEIL suffers a catastrophic loss causing a prolonged outage, the Utility may be required to pay an additional premium of up to \$40 million per one-year policy term.

NEIL also provides coverage for damages caused by acts of terrorism at nuclear power plants that have been “certified” by the Secretary of the Treasury. For a certified act of terrorism, NEIL can obtain compensation from the federal government and will provide up to the full policy limits to the Utility for an insured loss. If one or more non-certified acts of terrorism cause property damage covered under any of the nuclear insurance policies issued by NEIL to any NEIL member, the maximum recovery under all those nuclear insurance policies may not exceed \$3.2 billion within a 12-month period plus the additional amounts recovered by NEIL for these losses from reinsurance.

Under the Price-Anderson Act, public liability claims that arise from nuclear incidents that occur at Diablo Canyon, and that occur during the transportation of material to and from Diablo Canyon are limited to \$12.6 billion. As required by the Price-Anderson Act, the Utility purchased the maximum available public liability insurance of \$375 million for Diablo Canyon. The balance of the \$12.6 billion of liability protection is provided under a loss-sharing program among utilities owning nuclear reactors. The Utility may be assessed up to \$235 million per nuclear incident under this program, with payments in each year limited to a maximum of \$35 million per incident. Both the maximum assessment and the maximum yearly assessment are adjusted for inflation at least every five years. The next scheduled adjustment is due on or before October 29, 2013.

The Price-Anderson Act does not apply to public liability claims that arise from nuclear incidents that occur during shipping of nuclear material from the nuclear fuel enricher to a fuel fabricator or that occur at the fuel fabricator’s facility. Such claims are covered by nuclear liability policies purchased by the enricher and the fuel fabricator as well as by separate supplier’s and transporter’s (“S&T”) insurance policies. The Utility has an S&T policy that provides coverage for claims arising from some of these incidents up to a maximum of \$375 million per incident. The Utility could incur losses that are either not covered by insurance or exceed the amount of insurance available.

Table of Contents

In addition, the Utility has \$53 million of liability insurance for Humboldt Bay Unit 3 and has a \$500 million indemnification from the NRC for public liability arising from nuclear incidents, covering liabilities in excess of the \$53 million of liability insurance.

Environmental Matters

The Utility may be required to pay for environmental remediation at sites where it has been, or may be, a potentially responsible party under environmental laws. Under federal and California laws, the Utility may be responsible for remediation of hazardous substances at former manufactured gas plant (“MGP”) sites, power plant sites, and sites used by the Utility for the storage, recycling, or disposal of potentially hazardous materials, even if the Utility did not deposit those substances on the site.

Given the complexities of the legal and regulatory environment and the inherent uncertainties involved in the early stages of a remediation project, the process for estimating remediation liabilities is subjective and requires significant judgment. The Utility records an environmental remediation liability when site assessments indicate that remediation is probable and it can reasonably estimate the loss within a range of possible amounts.

The Utility records an environmental remediation liability based on the lower end of the range of estimated costs, unless an amount within the range is a better estimate than any other amount. Amounts recorded are not discounted to their present value.

The Utility had an undiscounted gross environmental remediation liability of \$615 million at June 30, 2010 and \$586 million at December 31, 2009. The following table presents the changes in the environmental remediation liability from December 31, 2009:

(in millions)	
Balance at December 31, 2009	\$586
Additional remediation costs accrued:	
Transfer to regulatory account for recovery	68
Amounts not recoverable from customers	16
Less: Payments	(55)
Balance at June 30, 2010	<u>\$615</u>

The \$615 million accrued at June 30, 2010 consists of the following:

- \$42 million for remediation at the Utility’s natural gas compressor site located near Hinkley, California;
- \$177 million for remediation at the Utility’s natural gas compressor site located on the California border, near Topock, Arizona;
- \$87 million related to remediation at divested generation facilities;
- \$121 million related to remediation costs for the Utility’s generation and other facilities and for third-party disposal sites;
- \$139 million related to investigation and/or remediation costs at former MGP sites owned by the Utility or third parties (including those sites that are the subject of remediation orders by environmental agencies or claims by the current owners of the former MGP sites); and
- \$49 million related to remediation decommissioning fossil-fueled sites.

The Utility has a program, in cooperation with the California Environmental Protection Agency, to evaluate and take appropriate action to mitigate any potential environmental concerns posed by certain former MGPs located throughout the Utility’s service territory. Of the 41 MGP sites owned or operated by the Utility, 33 have been or are in the process of being remediated. The Utility has notified the owners of properties located on the remaining eight sites and offered to test the soil for residues, and depending on the results of such tests, to take appropriate remedial action. Two of these sites are located in urban, residential areas of San Francisco and one site is located in a predominantly commercial area of San Francisco. Although the Utility has entered into or is negotiating site access agreements with several of the property owners, others have not responded to the Utility’s offer. Until its investigation is complete, the extent of its obligation to remediate is established, and appropriate remedial actions are determined, the Utility is unable to estimate the ultimate amount it may incur with respect to the remediation of these sites.

The Utility expects to recover \$326 million of the \$615 million environmental remediation liability, in accordance with a CPUC-approved ratemaking mechanism under which the Utility is authorized to recover 90% of hazardous waste remediation costs without a

Table of Contents

reasonableness review. (Environmental remediation associated with the Hinkley natural gas compressor site is not recoverable under this mechanism.) In addition, the CPUC and the FERC have authorized the Utility to recover \$123 million in rates relating to remediation costs for decommissioning fossil-fueled sites and certain of the Utility's transmission stations. The Utility also recovers its costs from insurance carriers and from other third parties whenever possible. Any amounts collected in excess of the Utility's ultimate obligations may be subject to refund to customers.

Although the Utility has provided for known environmental obligations that are probable and reasonably estimable, estimated costs may vary significantly from actual costs, and the amount of additional future costs may be material to results of operations in the period in which they are recognized. The Utility's undiscounted future costs could increase to as much as \$1.1 billion if the extent of contamination or necessary remediation is greater than anticipated or if the other potentially responsible parties are not financially able to contribute to these costs, and could increase further if the Utility chooses to remediate beyond regulatory requirements. In addition, it is reasonably possible that the Utility will incur losses related to certain MGP sites located in San Francisco, but the Utility is unable to reasonably estimate the amount of such loss.

Legal Matters

PG&E Corporation and the Utility are subject to various laws and regulations and, in the normal course of business, PG&E Corporation and the Utility are named as parties in a number of claims and lawsuits.

PG&E Corporation and the Utility make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These accruals, and the estimates of any additional reasonably possible losses, are reviewed quarterly and are adjusted to reflect the impacts of negotiations, discovery, settlements and payments, rulings, advice of legal counsel, and other information and events pertaining to a particular matter. In assessing such contingencies, PG&E Corporation's and the Utility's policy is to exclude anticipated legal costs.

The accrued liability for legal matters is included in PG&E Corporation's and the Utility's current liabilities – other in the Condensed Consolidated Balance Sheets and totaled \$56 million at June 30, 2010 and \$57 million at December 31, 2009. PG&E Corporation and the Utility are not able to predict the ultimate outcome of the various legal matters, but after consideration of these accruals, PG&E Corporation and the Utility do not believe that losses associated with these matters would have a material adverse impact on their financial condition or results of operations.

Tax Matters

PG&E Corporation and the Utility receive a federal subsidy for maintaining a retiree medical benefit plan with prescription drug benefits that is actuarially equivalent to Medicare Part D. For federal income tax purposes, the subsidy was deductible when contributed to the benefit plan maintained for these benefits. On March 30, 2010, federal healthcare legislation was signed eliminating the deduction for subsidy contributions after 2012. As a result, PG&E Corporation and the Utility recognized an expense of \$20 million (recorded as an increase to income tax provision and a reduction to deferred income tax asset for subsidy amounts included in the calculation of accrued retiree medical benefit obligation).

The Internal Revenue Service ("IRS") is currently auditing PG&E Corporation's consolidated 2005–2007 income tax returns. For 2008 and 2009, PG&E Corporation participates in the Compliance Assurance Process ("CAP"), a real-time IRS audit intended to expedite matter resolution. The CAP audit culminates with a letter from the IRS indicating their acceptance of the return. The IRS accepted the 2008 return but held back several matters for further review. The most significant of these relates to a tax accounting method change used by PG&E Corporation to accelerate the amount of deductible repairs. While the IRS approved PG&E Corporation's request for a change in method, the IRS maintained the right to further review the amount of the additional deduction. This review has not progressed significantly because the IRS is working with the utility industry in an effort to resolve this matter in a consistent manner for all utilities before auditing individual companies. Although the IRS is still reviewing PG&E Corporation's 2009 tax return, PG&E Corporation anticipates that the IRS will hold back the same matters for further review.

The California Franchise Tax Board is auditing PG&E Corporation's 2004 and 2005 combined California income tax returns, as well as 1997-2007 amended income tax returns reflecting IRS settlements for these years and claim filings that apply only to California. Based on recent communications with the Franchise Tax Board, PG&E Corporation does not expect the California audits to be completed prior to the latter part of 2011.

PG&E Corporation believes that the final resolution of the federal and California audits will not have a material adverse impact on its financial condition or results of operations. PG&E Corporation is neither under audit nor subject to any material risk in any other jurisdiction.

Table of Contents

As of June 30, 2010, PG&E Corporation has \$25 million of federal and California capital loss carry forwards based on filed tax returns, of which approximately \$10 million will expire if not used by 2011. For all periods presented, PG&E Corporation has provided a full valuation allowance against its deferred income tax assets for capital loss carry forwards.

For a discussion of unrecognized tax benefits, see Note 9 of the Notes to the Consolidated Financial Statements in the 2009 Annual Report. It is reasonably possible that unrecognized tax benefits could decrease in the next 12 months by an amount ranging from \$0 to \$30 million for PG&E Corporation and the Utility.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

OVERVIEW

PG&E Corporation, incorporated in California in 1995, is a holding company whose primary purpose is to hold interests in energy-based businesses. PG&E Corporation conducts its business principally through Pacific Gas and Electric Company ("Utility"), a public utility operating in northern and central California. The Utility generates revenues mainly through the sale and delivery of electricity and natural gas to customers. PG&E Corporation became the holding company of the Utility and its subsidiaries on January 1, 1997. Both PG&E Corporation and the Utility are headquartered in San Francisco, California.

The Utility served 5.2 million electricity distribution customers and 4.3 million natural gas distribution customers at June 30, 2010. The Utility had \$44.0 billion in assets at June 30, 2010 and generated revenues of \$6.7 billion in the six months ended June 30, 2010.

The Utility is regulated primarily by the California Public Utilities Commission ("CPUC") and the Federal Energy Regulatory Commission ("FERC"). In addition, the Nuclear Regulatory Commission ("NRC") oversees the licensing, construction, operation, and decommissioning of the Utility's nuclear generation facilities, including the Diablo Canyon power plant ("Diablo Canyon"). The CPUC has jurisdiction over the rates and terms and conditions of service for the Utility's electric and natural gas distribution operations, electric generation, and natural gas transportation and storage. The FERC has jurisdiction over the rates and terms and conditions of service governing the Utility's electric transmission operations and over the rates and terms and conditions of service governing the Utility on its interstate natural gas transportation contracts. Before setting rates, the CPUC and the FERC authorize the annual amount of revenue ("revenue requirements") that the Utility is authorized to collect from its customers to recover its reasonable operating and capital costs of providing utility services. The authorized revenue requirements also provide the Utility an opportunity to earn a return on "rate base" (i.e., the Utility's net investment in facilities, equipment, and other property used or useful in providing utility service to its customers.) The CPUC requires the Utility to maintain a certain capital structure (i.e., the relative weightings of common equity, preferred equity, and debt) when financing its rate base and authorizes the Utility to earn a specific rate of return on each capital component.

This is a combined quarterly report of PG&E Corporation and the Utility and should be read in conjunction with each company's separate Condensed Consolidated Financial Statements and the Notes to the Condensed Consolidated Financial Statements included in this quarterly report. In addition, this quarterly report should be read in conjunction with PG&E Corporation's and the Utility's combined Annual Report on Form 10-K for the year ended December 31, 2009 which incorporates by reference each company's audited Consolidated Financial Statements, the Notes to the Consolidated Financial Statements, and other information incorporated by reference ("2009 Annual Report").

Significant developments that have occurred since the 2009 Annual Report was filed with the Securities and Exchange Commission on February 19, 2010 are discussed in this Quarterly Report on Form 10-Q.

Summary of Changes in Earnings per Common Share and Income Available for Common Shareholders for the Three and Six Months Ended June 30, 2010

PG&E Corporation's diluted earnings per common share ("EPS") for the three months ended June 30, 2010 was \$0.86 compared to \$1.02 for the same period in 2009. For the six months ended June 30, 2010, PG&E Corporation's diluted EPS was \$1.54 compared to \$1.67 for the same period in 2009. PG&E Corporation's income available for common shareholders for the three months ended June 30, 2010 decreased by \$55 million, or 14%, to \$333 million, compared to \$388 million for the same period in 2009. For the six months ended June 30, 2010, income available for common shareholders decreased by \$38 million, or 6%, to \$591 million, compared to \$629 million for the same period in 2009. The primary factors for these decreases are discussed below.

Diluted EPS and income available for common shareholders decreased for both the three and six months ended June 30, 2010, as compared to the same periods in 2009 when the Utility recognized a \$28 million, after tax, recovery of costs previously incurred in connection with its hydroelectric generation facilities and a \$56 million, after tax, income benefit as a result of a tax settlement.

For the three months ended June 30, 2010, the Utility incurred costs of \$20 million, after tax, to support Proposition 16 - Taxpayers Right to Vote Act ("Proposition 16") that also contributed to a decrease in diluted EPS and income available for common shareholders during the quarter. These negative factors were partially offset by (1) an increase of \$19 million, after tax, that the Utility earned on higher authorized capital investments, (2) a decrease of \$4 million, after tax, in employee termination costs, and (3) a decrease of \$11 million, after tax, representing costs the Utility incurred during the three months ended June 30, 2009 to perform accelerated natural gas leak surveys.

For the six months ended June 30, 2010, the Utility incurred (1) \$45 million, after tax, of costs to support Proposition

Table of Contents

16, (2) a \$20 million, after tax, charge triggered by the elimination of the tax deductibility of the Medicare Part D federal subsidy, and (3) \$12 million, after tax, of storm-related costs. These negative factors were partially offset by (1) an increase of \$40 million, after tax, that the Utility earned on higher authorized capital investments, (2) a decrease of \$22 million, after tax, representing costs the Utility incurred in 2009 in connection with a scheduled refueling outage at Diablo Canyon, (3) a decrease of \$10 million, after tax, in employee termination costs, (4) a decrease of \$16 million, after tax, representing costs the Utility incurred during the six months ended June 30, 2009 to perform accelerated natural gas leak surveys, and (5) a decrease of \$7 million, after tax, in uncollectible expense as a result of customer outreach and increased collection efforts as compared to the same period in 2009.

Key Factors Affecting Results of Operations and Financial Condition

PG&E Corporation's and the Utility's results of operations and financial condition depend primarily on whether the Utility is able to operate its business within authorized revenue requirements, recover its authorized costs timely, and earn its authorized rate of return. A number of factors have had, or are expected to have, a significant impact on PG&E Corporation's and the Utility's results of operations and financial condition, including:

- *The Outcome of Regulatory Proceedings* . There are several rate cases that are currently pending at the CPUC and the FERC, the outcome of which will determine the majority of the Utility's base revenue requirements for 2011 and several years thereafter. In the 2011 General Rate Case ("2011 GRC"), the CPUC will authorize the Utility's revenue requirements for its electric and natural gas distribution operations and its electric generation operations from 2011 through 2013. The CPUC will also authorize the Utility's revenue requirements for its natural gas transportation and storage services from 2011 through 2014 in the pending gas transmission and storage rate case. In addition, on July 28, 2010, the Utility filed its 13th Electric Transmission Owner ("TO") rate case requesting the FERC to determine the amount of electric transmission revenues the Utility can recover beginning in March 2011. (See "Regulatory Matters" below.) From time to time the Utility also requests that the CPUC authorize additional base revenue requirements for specific capital expenditure projects such as new power plants. (See "Capital Expenditures" below.) The outcome of these regulatory proceedings can be affected by many factors, including general economic conditions, the level of customer rates, and political and regulatory policies.
- *The Ability of the Utility to Control Costs While Improving Operational Efficiency and Reliability* . The Utility's revenue requirements in general rate cases and TO rate cases are generally set at a level to allow the Utility the opportunity to recover its basic forecasted operating expenses, as well as to earn a return on equity ("ROE") and recover depreciation, tax, and interest expense associated with authorized capital expenditures. Differences in the amount or timing of forecasted and actual operating expenses and capital expenditures can affect the Utility's ability to earn its CPUC-authorized rate of return and the amount of PG&E Corporation's income available for common shareholders. In addition, the Utility may incur higher than anticipated operating expenses than provided for in the last general rate case. The Utility continuously re-prioritizes spending to meet customer needs and seeks to achieve sustainable operational efficiencies to maximize its ability to earn its authorized return while maintaining and improving operational safety and reliability. (See "Results of Operations" below.) The Utility also seeks to make the amount and timing of its capital expenditures consistent with customer demand and forecasted amounts and timing and to manage separately funded projects within approved cost limits. When capital expenditures are higher than authorized levels, the Utility incurs associated depreciation, property tax, and interest expense but does not recover revenues to fully offset these expenses or earn an ROE until the increased capital expenditures are added to rate base in future rate cases. (See "Capital Expenditures" below.)
- *Capital Structure and Financing*. The CPUC has authorized a capital structure for the Utility's electric and natural gas distribution and electric generation rate base that consists of 52% common equity and 48% debt and preferred stock. This authorized capital structure will remain in effect through 2012. The CPUC also has authorized the Utility to earn a rate of return on each component of its capital structure, including a ROE of 11.35%. These rates will remain in effect through 2010. The rates for 2011 and 2012 are subject to an annual adjustment mechanism that will be triggered if the 12-month October-through-September average yield for the applicable Moody's Investors Service utility bond index increases or decreases by more than 1% as compared to the applicable benchmark. The amount of the Utility's authorized equity earnings is determined by the 52% equity component, the 11.35% ROE, and the aggregate amount of rate base authorized by the CPUC. The rate of return that the Utility earns on its FERC-jurisdictional rate base is not specifically

Table of Contents

authorized, but rates are designed to allow the Utility to earn a reasonable rate of return. The CPUC periodically authorizes the aggregate amount of long-term debt and short-term debt that the Utility may issue and authorizes the Utility to recover its related debt financing costs. The timing and amount of the Utility's future financing will depend on various factors, as discussed in "Liquidity and Financial Resources" below. PG&E Corporation contributes equity to the Utility as needed by the Utility to maintain its CPUC-authorized capital structure. PG&E Corporation may issue debt or equity in the future to fund these equity contributions.

In addition to the key factors discussed above, PG&E Corporation's and the Utility's future results of operations and financial condition are subject to risk factors. (See "Risk Factors" in the 2009 Annual Report.)

CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are necessarily subject to various risks and uncertainties. These statements are based on current estimates, expectations, and projections about future events and assumptions regarding these events and management's knowledge of facts as of the date of this report. These forward-looking statements relate to, among other matters, estimated capital expenditures; estimated environmental remediation, tax, and other liabilities; estimates and assumptions used in PG&E Corporation's and the Utility's critical accounting policies; the anticipated outcome of various regulatory and legal proceedings; estimated future cash flows; and the level of future equity or debt issuances. These statements are also identified by words such as "assume," "expect," "intend," "plan," "project," "believe," "estimate," "target," "predict," "anticipate," "aim," "may," "might," "should," "would," "could," "goal," "potential," and similar expressions. PG&E Corporation and the Utility are not able to predict all the factors that may affect future results. Some of the factors that could cause future results to differ materially from those expressed or implied by the forward-looking statements, or from historical results, include, but are not limited to:

- the Utility's ability to efficiently manage capital expenditures and its operating and maintenance expenses within authorized levels;
- the outcome of pending and future regulatory proceedings and whether the Utility is able to timely recover its costs through rates;
- the adequacy and price of electricity and natural gas supplies and whether the new day-ahead, hour-ahead, and real-time wholesale electricity markets established by the California Independent System Operator ("CAISO") will continue to function effectively, the extent to which the Utility can manage and respond to the volatility of electricity and natural gas prices, and the ability of the Utility and its counterparties to post or return collateral;
- explosions, fires, accidents, mechanical breakdowns, the disruption of information technology and systems, and similar events that may occur while operating and maintaining an electric and natural gas system in a large service territory with varying geographic conditions that can cause unplanned outages, reduce generating output, damage the Utility's assets or operations, subject the Utility to third-party claims for property damage or personal injury, or result in the imposition of civil, criminal, or regulatory fines or penalties on the Utility;
- the impact of storms, earthquakes, floods, drought, wildfires, disease, and similar natural disasters, or acts of terrorism or vandalism, that affect customer demand or that damage or disrupt the facilities, operations, or information technology and systems owned by the Utility, its customers, or third parties on which the Utility relies;
- the potential impacts of climate change on the Utility's electricity and natural gas businesses;
- changes in customer demand for electricity and natural gas resulting from unanticipated population growth or decline, general economic and financial market conditions, changes in technology that include the development of alternative technologies that enable customers to increase their reliance on self-generation, or other reasons;
- the occurrence of unplanned outages at the Utility's two nuclear generating units at Diablo Canyon, the availability of nuclear fuel, the outcome of the Utility's application to renew the operating licenses for Diablo Canyon, and potential changes in laws or regulations promulgated by the NRC or environmental agencies with respect to the storage of spent nuclear fuel, security, safety, or other matters associated with the operations at Diablo Canyon;

Table of Contents

- whether the Utility earns incentive revenues or incurs obligations under incentive ratemaking mechanisms, such as the CPUC's incentive ratemaking mechanism relating to energy savings achieved through implementation of the utilities' customer energy efficiency programs;
- the impact of federal or state laws or regulations, or their interpretation, on energy policy and the regulation of utilities and their holding companies;
- whether the Utility can successfully implement its program to install advanced meters for its electric and natural gas customers and integrate the new meters with its customer billing and other systems, the outcome of the independent investigation ordered by the CPUC and the California Legislature into customer concerns about the new meters, and the ability of the Utility to implement various rate changes including "dynamic pricing" by offering electric rates that can vary with the customer's time of use and are more closely aligned with wholesale electricity prices;
- how the CPUC interprets and enforces the financial and other conditions imposed on PG&E Corporation when it became the Utility's holding company and the extent to which the interpretation or enforcement of these conditions has a material impact on PG&E Corporation;
- the outcome of litigation, including litigation involving the application of various California wage and hour laws, and the extent to which PG&E Corporation or the Utility incurs costs and liabilities in connection with litigation that are not recoverable through rates, from insurance, or from other third parties;
- the ability of PG&E Corporation, the Utility, and counterparties to access capital markets and other sources of credit in a timely manner on acceptable terms;
- the impact of environmental laws and regulations and the costs of compliance and remediation;
- the loss of customers due to various forms of bypass and competition, including municipalization of the Utility's electric distribution facilities, increasing levels of "direct access" by which consumers procure electricity from alternative energy providers, and implementation of "community choice aggregation," which permits cities and counties to purchase and sell electricity for their local residents and businesses; and
- the outcome of federal or state tax audits and the impact of changes in federal or state tax laws, policies, or regulations.

For more information about the significant risks that could affect the outcome of these forward-looking statements and PG&E Corporation's and the Utility's future financial condition and results of operations, see the discussion in the section entitled "Risk Factors" in the 2009 Annual Report. PG&E Corporation and the Utility do not undertake an obligation to update forward-looking statements, whether in response to new information, future events, or otherwise.

Table of Contents

RESULTS OF OPERATIONS

The table below details certain items from the accompanying Condensed Consolidated Statements of Income for the three and six months ended June 30, 2010 and 2009:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Utility				
Electric operating revenues	\$ 2,515	\$ 2,554	\$5,025	\$4,980
Natural gas operating revenues	717	640	1,682	1,645
Total operating revenues	<u>3,232</u>	<u>3,194</u>	<u>6,707</u>	<u>6,625</u>
Cost of electricity	863	883	1,783	1,766
Cost of natural gas	247	188	742	745
Operating and maintenance	958	1,037	1,948	2,096
Depreciation, amortization, and decommissioning	468	429	919	848
Total operating expenses	<u>2,536</u>	<u>2,537</u>	<u>5,392</u>	<u>5,455</u>
Operating Income	696	657	1,315	1,170
Interest income	2	17	4	26
Interest expense	(164)	(166)	(320)	(339)
Other income (expense), net	1	15	(5)	36
Income Before Income Taxes	535	523	994	893
Income tax provision	196	132	391	263
Net Income	339	391	603	630
Preferred stock dividend requirement	4	4	7	7
Income Available for Common Stock	<u>\$ 335</u>	<u>\$ 387</u>	<u>\$ 596</u>	<u>\$ 623</u>
PG&E Corporation, Eliminations, and Other ⁽¹⁾				
Operating revenues	\$ —	\$ —	\$ —	\$ —
Operating expenses	1	1	2	1
Operating Loss	(1)	(1)	(2)	(1)
Interest income	—	—	—	—
Interest expense	(11)	(12)	(23)	(20)
Other income, net	1	7	1	4
Loss Before Income Taxes	(11)	(6)	(24)	(17)
Income tax benefit	(9)	(7)	(19)	(23)
Net Income (Loss)	<u>\$ (2)</u>	<u>\$ 1</u>	<u>\$ (5)</u>	<u>\$ 6</u>
Consolidated Total				
Operating revenues	\$ 3,232	\$ 3,194	\$6,707	\$6,625
Operating expenses	<u>2,537</u>	<u>2,538</u>	<u>5,394</u>	<u>5,456</u>
Operating Income	695	656	1,313	1,169
Interest income	2	17	4	26
Interest expense	(175)	(178)	(343)	(359)
Other income (expense), net	2	22	(4)	40
Income Before Income Taxes	524	517	970	876
Income tax provision	187	125	372	240
Net Income	337	392	598	636
Preferred stock dividend requirement of subsidiary	4	4	7	7
Income Available for Common Shareholders	<u>\$ 333</u>	<u>\$ 388</u>	<u>\$ 591</u>	<u>\$ 629</u>

⁽¹⁾ PG&E Corporation eliminates all intercompany transactions in consolidation.

Table of Contents

Utility

The following presents the Utility's operating results for the three and six months ended June 30, 2010 and 2009.

Electric Operating Revenues

The Utility's electric operating revenues consist of amounts charged to customers for electricity generation and for electric transmission and distribution services, as well as amounts charged to customers to recover the cost of electric procurement, and public purpose, energy efficiency, and demand response programs. The Utility provides electricity to residential, industrial, agricultural, and small and large commercial customers through its own generation facilities and through power purchase agreements with third parties. In addition, a portion of the Utility's customers' demand for electricity ("load") is satisfied by electricity provided under long-term contracts between the California Department of Water Resources ("DWR") and various power suppliers.

The following table provides a summary of the Utility's electric operating revenues:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Electric revenues	\$ 2,820	\$ 3,012	\$5,685	\$5,833
DWR pass-through revenues ⁽¹⁾	(305)	(458)	(660)	(853)
Total electric operating revenues	\$ 2,515	\$ 2,554	\$5,025	\$4,980

⁽¹⁾ These are revenues collected on behalf of the DWR for electricity allocated to the Utility's customers under contracts between the DWR and power suppliers, and are not included in the Utility's Condensed Consolidated Statements of Income.

The Utility's total electric operating revenues, including revenues intended to recover costs that are passed through to customers, decreased by \$39 million, or 2%, in the three months ended June 30, 2010 as compared to the same period in 2009. Costs that are passed through to customers and do not impact net income decreased by about \$55 million due to lower costs of electric procurement, lower costs associated with public purpose programs and a decrease in the amount of collateral posted with the ISO. (See "Cost of Electricity" and "Operating and Maintenance" below.) Electric operating revenues, excluding costs passed through to customers, increased by \$16 million. This was primarily due to an increase of \$52 million in authorized base revenues, which was partially offset by a decrease in revenues of \$35 million, representing the amount the Utility received in 2009 to recover costs it had previously incurred in connection with its hydroelectric generation facilities.

The Utility's total electric operating revenues, including revenues intended to recover costs that are passed through to customers, increased by \$45 million, or 1%, in the six months ended June 30, 2010, as compared to the same period in 2009. Costs that are passed through to customers and do not impact net income decreased by about \$26 million primarily due to a decrease in the amount of collateral posted with the ISO and a decrease in the cost of public purpose programs, offset by higher costs of electric procurement. (See "Operating and Maintenance" and "Cost of Electricity" below.) Electric operating revenues, excluding costs passed through to customers, increased by \$71 million. This was primarily due to a \$106 million increase in authorized base revenues, which was partially offset by a decrease in revenues of \$35 million, representing the amount the Utility received in 2009 to recover costs it had previously incurred in connection with its hydroelectric generation facilities.

Table of Contents

The Utility's future electric operating revenues will depend on the amount of revenue requirements authorized by the FERC and the CPUC in various regulatory proceedings. Additionally, the Utility's future electric operating revenues will be impacted by the cost of electricity. The Utility also expects to continue to collect revenue requirements to recover capital expenditures related to specific projects approved by the CPUC. (See "Capital Expenditures" below.) Revenue requirements associated with new or expanded public purpose, energy efficiency, and demand response programs will also impact electric operating revenues. Finally, the CPUC has not yet determined how the existing energy efficiency incentive mechanism will be modified, so the amount of incentive revenues the Utility may earn for the implementation of its programs in 2009 and future years is uncertain. (See "Regulatory Matters" below.)

Cost of Electricity

The Utility's cost of electricity includes costs to purchase power from third parties, certain transmission costs, the cost of fuel used in its generation facilities, and the cost of fuel supplied to other facilities under tolling agreements. The Utility's cost of electricity also includes realized gains and losses on price risk management activities. (See Note 7 of the Notes to the Condensed Consolidated Financial Statements.) The Utility's cost of electricity is passed through to customers. The Utility's cost of electricity excludes non-fuel costs associated with the Utility's own generation facilities, which are included in operating and maintenance expense in the Condensed Consolidated Statements of Income. The cost of electricity provided to the Utility customers under power purchase agreements between the DWR and various power suppliers is also excluded from the Utility's cost of electricity.

The following table provides a summary of the Utility's cost of electricity and the total amount and average cost of purchased power:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cost of purchased power	\$ 811	\$ 835	\$ 1,653	\$ 1,673
Fuel used in own generation	52	48	130	93
Total cost of electricity	\$ 863	\$ 883	\$ 1,783	\$ 1,766
Average cost of purchased power per kWh ⁽¹⁾	\$ 0.084	\$ 0.088	\$ 0.083	\$ 0.085
Total purchased power (in millions of kWh)	9,708	9,488	19,825	19,714

⁽¹⁾ Kilowatt-hour

The Utility's total cost of electricity decreased by \$20 million, or 2%, in the three months ended June 30, 2010, as compared to the same period in 2009, primarily due to a decrease in the price of purchased power.

The Utility's total cost of electricity increased by \$17 million, or 1%, in the six months ended June 30, 2010, as compared to the same period in 2009. This was caused by an increase in the cost of fuel used in the Utility's own generation facilities as the

Table of Contents

Utility increased its non-nuclear generation to replace power that had previously been provided under a DWR contract that expired at the end of 2009 (costs associated with power provided to the Utility's customers under DWR contracts are not included in the Utility's cost of purchased power). The Utility's mix of resources is determined by the availability of the Utility's own electricity generation and the cost-effectiveness of each source of electricity.

Various factors will affect the Utility's future cost of electricity, including the market prices for electricity and natural gas, the level of hydroelectric and nuclear power produced by the Utility, the cost of procuring more renewable energy, changes in customer demand, and the amount and timing of power purchases needed to replace power previously supplied under the DWR contracts as those contracts expire or are terminated, novated, or renegotiated.

The Utility's future cost of electricity may also be affected by federal or state legislation or rules that may be adopted to regulate the emissions of greenhouse gases ("GHG") from the Utility's electricity generating facilities or the generating facilities from which the Utility procures electricity. In particular, costs are likely to increase in the future when California's statewide GHG emissions reduction law is implemented. (See "Environmental Matters" below.)

Natural Gas Operating Revenues

The Utility sells natural gas, natural gas transportation services, and natural gas storage services. The Utility's transportation services are provided by a transmission system and a distribution system. The transmission system transports gas throughout its service territory for delivery to the Utility's distribution system, which, in turn, delivers natural gas to end-use customers. The transmission system also delivers natural gas to large end-use customers who are connected directly to the transmission system. In addition, the Utility delivers natural gas to off-system markets, primarily in southern California.

The following table provides a summary of the Utility's natural gas operating revenues:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Bundled natural gas revenues	\$ 619	\$ 555	\$ 1,494	\$ 1,478
Transportation service-only revenues	98	85	188	167
Total natural gas operating revenues	\$ 717	\$ 640	\$ 1,682	\$ 1,645

The Utility's total natural gas operating revenues, including revenues intended to recover costs that are passed through to customers, increased by \$77 million, or 12%, in the three months ended June 30, 2010 as compared to the same period in 2009. This reflects a \$59 million increase in the total cost of natural gas due to higher market prices which is passed through to customers and does not impact net income. (See "Cost of Natural Gas" below.) Natural gas operating revenues, excluding items passed through to customers, increased by \$18 million primarily due to a \$13 million increase in authorized base revenues.

The Utility's total natural gas operating revenues, including revenues intended to recover costs that are passed through to customers, increased by \$37 million, or 2%, in the six months ended June 30, 2010 as compared to the same period in 2009. This reflects an \$11 million increase in the cost of public purpose programs which is passed through to customers and does not impact net income. (See "Operating and Maintenance" below.) Natural gas operating revenues, excluding items passed through to customers, increased by \$26 million primarily due to a \$23 million increase in authorized base revenues.

The Utility's future natural gas operating revenues will depend on the amount of revenue requirements authorized by the CPUC in various regulatory proceedings. (See "Regulatory Matters" below.) Additionally, the Utility's future natural gas operating revenues will be impacted by the cost of natural gas. The Utility also expects future natural gas operating revenues to increase to the extent that the CPUC approves the Utility's separately funded capital projects. The CPUC has not yet determined how the existing energy efficiency incentive mechanism will be modified, so the amount of incentive revenues that the Utility may earn for the implementation of its programs in 2009 and future years is uncertain. (See "Regulatory Matters" below.)

Table of Contents

Cost of Natural Gas

The Utility's cost of natural gas includes the purchase costs of natural gas, transportation costs on interstate pipelines, and gas storage costs, but excludes the transportation costs on intrastate pipelines for core and non-core customers, which are included in operating and maintenance expense in the Condensed Consolidated Statements of Income. The Utility's cost of natural gas also includes realized gains and losses on price risk management activities. (See Note 7 of the Notes to the Condensed Consolidated Financial Statements.)

The following table provides a summary of the Utility's cost of natural gas:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cost of natural gas sold	\$ 204	\$ 149	\$ 654	\$ 664
Transportation cost of natural gas sold	43	39	88	81
Total cost of natural gas	\$ 247	\$ 188	\$ 742	\$ 745
Average cost per Mcf of natural gas sold	\$ 3.58	\$ 2.87	\$ 4.63	\$ 4.34
Total natural gas sold (in millions of Mcf)	57	52	152	153

The Utility's total cost of natural gas increased by \$59 million, or 31%, in the three months ended June 30, 2010, as compared to the same period in 2009, primarily due to higher market prices for natural gas, which are passed through to customers and do not impact net income.

In the six months ended June 30, 2010, the Utility's total cost of natural gas decreased by \$3 million, or less than 1%, due to the \$49 million the Utility received in the first quarter of 2010 to be refunded to customers as part of a settlement of litigation arising from the manipulation of the natural gas market by third parties during 1999-2002. This decrease was partially offset by higher market prices for natural gas, which are passed through to customers.

The Utility's future cost of natural gas will be affected by the market price of natural gas and changes in customer demand. The Utility's future cost of gas may also be affected by federal or state legislation or rules to regulate the GHG emissions from the Utility's natural gas transportation and distribution facilities, and from natural gas consumed by the Utility's customers.

Operating and Maintenance

Operating and maintenance expenses consist mainly of the Utility's costs to operate and maintain its electricity and natural gas facilities, customer billing and service expenses, the cost of public purpose programs, and administrative and general expenses.

The Utility's operating and maintenance expenses decreased by \$79 million, or 8%, in the three months ended June 30, 2010. During the three months ended June 30, 2010, the pass-through costs of collateral payments to the CAISO and public purpose programs decreased by \$20 million and \$14 million, respectively. Excluding costs passed through to customers, operating and maintenance expenses decreased by \$45 million, including an \$18 million decrease in labor and other costs attributable to accelerated natural gas leak surveys and associated remedial work that was performed in 2009 but not in 2010, a \$7 million decrease in severance costs as compared to 2009 when severance costs were incurred in connection with the consolidation of certain regional facilities, and a \$4 million decrease in uncollectible customer accounts as a result of customer outreach and increased collection efforts. These decreases were partially offset by an increase in employee benefits of \$15 million, primarily due to a reduction in investment gains earned on employee benefit plan trust assets as compared to 2009. Additionally, operating and maintenance expenses decreased as a result of a \$31 million decrease in other miscellaneous operating and maintenance expenses, including costs associated with environmental remediation and pass-through costs associated with the new day-ahead market.

The Utility's operating and maintenance expenses decreased by \$148 million, or 7%, in the six months ended June 30, 2010, compared to the same period in 2009. During the six months ended June 30, 2010, the pass-through costs of collateral payments to the CAISO and public purpose programs decreased by \$20 million and \$7 million, respectively. Excluding costs passed through to customers, operating and maintenance expenses decreased by \$121 million, including a \$79 million decrease in labor costs and other costs as compared to 2009 when costs were incurred in connection with the scheduled refueling outage at Diablo Canyon and accelerated natural gas leak surveys and associated remedial work, a \$17 million decrease in severance costs as compared to 2009 when severance costs were incurred in connection with the consolidation of certain regional facilities, and a \$16 million decrease in uncollectible customer accounts as a result of customer outreach and increased collection efforts. These decreases were partially offset by \$21 million of higher costs related to the January 2010 winter storms. Additionally, operating and maintenance expenses decreased as a result of a \$30 million decrease in other miscellaneous operating and

Table of Contents

maintenance expenses, including costs associated with environmental remediation and pass-through costs associated with the new day-ahead market.

The Utility expects that it will incur higher expenses in future periods to obtain permits or comply with permitting requirements and to maintain its aging electric and natural gas infrastructure. The Utility will seek to recover its costs to serve customers in future proceedings and will continue its efforts to identify and implement initiatives to achieve operational efficiencies and to create future sustainable cost savings.

Depreciation, Amortization, and Decommissioning

The Utility's depreciation and amortization expense consists of depreciation and amortization on plant and regulatory assets, and decommissioning expenses associated with fossil and nuclear decommissioning. The Utility's depreciation, amortization, and decommissioning expenses increased by \$39 million, or 9%, in the three months ended June 30, 2010, and \$71 million, or 8%, in the six months ended June 30, 2010, as compared to the same periods in 2009. These changes are primarily due to an increase in capital additions.

The Utility's depreciation expense for future periods is expected to increase as a result of an overall increase in net capital additions. Additionally, depreciation expense in subsequent years will be impacted by the depreciation rates set by the CPUC in the 2011 GRC and the 2011 gas transmission and storage rate case, and by the FERC in future TO rate cases.

Interest Income

In the three and six months ended June 30, 2010, the Utility's interest income decreased by \$15 million, or 88%, and \$22 million, or 85%, as compared to the same periods in 2009, primarily due to lower interest rates earned on various regulatory balancing accounts and lower balances for those accounts. In addition, interest income decreased for both the three and six months ended June 30, 2010, as compared to the same period in 2009, when the Utility recovered \$12 million of interest costs related to the proposed divestiture of its hydroelectric generation facilities. Also, interest income earned on funds held in escrow pending the disposition of Chapter 11 disputed claims decreased due to lower interest rates and a lower escrow balance. (See Note 10 of the Notes to the Condensed Consolidated Financial Statements for information about the Chapter 11 disputed claims.)

The Utility's interest income in future periods primarily will be affected by changes in the balance of funds held in escrow pending resolution of the Chapter 11 disputed claims, changes in regulatory balancing accounts, and changes in interest rates.

Interest Expense

In the three and six months ended June 30, 2010, the Utility's interest expense decreased by \$2 million and \$19 million, or 1% and 6%, respectively, as compared to the same periods in 2009. This decrease was primarily attributable to lower interest rates on outstanding short-term debt and decreases in the outstanding balances of the liability for Chapter 11 disputed claims and various regulatory balancing accounts and regulatory assets. This decrease was partially offset by interest that accrued on higher outstanding balances of long-term debt due to the timing of senior note issuances. (See Note 4 of the Notes to the Condensed Consolidated Financial Statements for further discussion.)

The Utility's interest expense in future periods will be impacted by changes in interest rates, changes in the liability for Chapter 11 disputed claims, changes in regulatory balancing accounts and regulatory assets, and changes in the amount of debt outstanding as long-term debt matures and additional long-term debt is issued.

Other Income (Expense), Net

The Utility's other income (expense), net changed by \$14 million, or 93%, in the three months ended June 30, 2010 and \$41 million, or 114% in the six months ended June 30, 2010, as compared to the same periods in 2009. The change was primarily due to an increase in other expenses as a result of costs the Utility incurred to support the Taxpayers' Right to Vote Act, a California ballot initiative that appeared on the June 8, 2010 ballot. These costs are not recovered in rates.

Table of Contents

Income Tax Provision

The Utility's income tax provision increased by \$64 million, or 48%, for the three months ended June 30, 2010, and \$128 million, or 49% for the six months ended June 30, 2010, as compared to the same period in 2009. The effective tax rates for the three months ended June 30, 2010 and 2009 were 37% and 25%, respectively. The increase in the effective tax rate for the three months ended June 30, 2010 was primarily due to an income tax benefit received in 2009 from settling a claim with the Internal Revenue Service ("IRS") related to 1998 and 1999 with no comparable benefit in 2010, and non-deductible expenses incurred to support the ballot initiative discussed above. The effective tax rates for the six months ended June 30, 2010 and 2009 were 39% and 30%, respectively. The increase in the effective tax rate for the six months ended June 30, 2010 was primarily due to the items discussed above for the second quarter of 2010 and the reversal of a deferred tax asset that had been recorded to reflect the future tax benefits attributable to the Medicare Part D subsidy after 2012 which were eliminated as part of the federal healthcare legislation passed during March 2010. (See Note 11 of the Notes to the Condensed Consolidated Financial Statements for a discussion of "Tax Matters.")

PG&E Corporation, Eliminations, and Other

Operating Revenues and Expenses

PG&E Corporation's revenues consist mainly of billings to its affiliates for services rendered, all of which are eliminated in consolidation. PG&E Corporation's operating expenses consist mainly of employee compensation and payments to third parties for goods and services. Generally, PG&E Corporation's operating expenses are allocated to affiliates. These allocations are made without mark-up and are eliminated in consolidation. PG&E Corporation's interest expense relates to its Convertible Subordinated Notes and 5.8% Senior Notes, and is not allocated to affiliates.

There were no material changes to PG&E Corporation's operating income in the three and six months ended June 30, 2010, as compared to the same periods in 2009.

LIQUIDITY AND FINANCIAL RESOURCES

Overview

The Utility's ability to fund operations depends on the levels of its operating cash flow and access to the capital markets. The levels of the Utility's operating cash and short-term debt fluctuate as a result of seasonal demand for electricity and natural gas, volatility in energy commodity costs, collateral requirements related to price risk management activity, the timing and amount of tax payments or refunds, and the timing and effect of regulatory decisions and financings, among other factors. The Utility generally utilizes equity contributions from PG&E Corporation and long-term senior unsecured debt issuances to fund debt maturities and capital expenditures and to maintain its CPUC-authorized capital structure. The Utility relies on short-term debt, including commercial paper, to fund temporary financing needs. The Utility has short-term borrowing authority of \$4.0 billion, including \$500 million that is restricted for use in certain contingencies.

PG&E Corporation's ability to fund operations, make scheduled principal and interest payments, fund Utility equity contributions as needed for the Utility to maintain its CPUC-authorized capital structure, fund capital investments, and pay dividends primarily depends on the level of cash distributions received from the Utility and PG&E Corporation's access to the capital markets.

Credit Facilities and Short Term Borrowings

The following table summarizes PG&E Corporation's and the Utility's outstanding commercial paper and revolving credit facilities at June 30, 2010:

(in millions)						
Authorized Borrower	Termination Date	Letters of Credit				
		Facility Limit	Outstanding	Cash Borrowings	Commercial Paper Backup	Availability
PG&E Corporation	February 2012	\$ 187 ⁽¹⁾	\$ —	\$ 30	N/A	\$ 157
Utility	February 2012	1,940 ⁽²⁾	256	—	\$ 1,027	657
Utility	February 2012	750 ⁽³⁾	N/A	—	—	750
Total credit facilities		\$ 2,877	\$ 256	\$ 30	\$ 1,027	\$ 1,564

⁽¹⁾ Includes an \$87 million sublimit for letters of credit and a \$100 million commitment for "swingline" loans, defined as loans that are made available on a same-day basis and are repayable in full within 30 days.

⁽²⁾ Includes a \$921 million sublimit for letters of credit and a \$200 million commitment for swingline loans.

⁽³⁾ Includes a \$75 million commitment for swingline loans.

Table of Contents

On June 8, 2010, the Utility entered into a \$750 million unsecured revolving credit agreement with a syndicate of lenders. The Utility will use \$500 million of the credit capacity under the credit agreement to support its electric procurement hedging activities. This credit capacity replaced the \$500 million Floating Rate Senior Notes that matured on June 10, 2010. The remaining credit capacity of \$250 million will be used for general working capital purposes. The credit agreement contains covenants that are usual and customary for credit facilities of this type, including covenants limiting liens, mergers, substantial asset sales, and other fundamental changes. Both the \$750 million and the \$1.9 billion revolving credit facilities require that the Utility maintain a ratio of total consolidated debt to total consolidated capitalization of at most 65% as of the end of each fiscal quarter. In addition, the \$1.9 billion revolving credit facility agreement requires that PG&E Corporation must own, directly or indirectly, at least 80% of the common stock and at least 70% of the voting capital stock of the Utility.

At June 30, 2010, PG&E Corporation and the Utility were in compliance with all covenants under each of the revolving credit facilities listed in the table above.

2010 Financings

On April 1, 2010, the Utility issued \$250 million principal amount of 5.8% Senior Notes due March 1, 2037. The proceeds from this issuance were used to repay a portion of outstanding commercial paper.

On April 8, 2010, the California Infrastructure and Economic Development Bank issued \$50 million of tax-exempt pollution control bonds series 2010E due on November 1, 2026 for the benefit of the Utility and loaned the proceeds to the Utility. The proceeds were used to refund the corresponding related series of pollution control bonds issued in 2005 which were repurchased by the Utility in 2008. The series 2010E bonds bear interest at 2.25% per year through April 1, 2012 and are subject to mandatory tender on April 2, 2012 at a price of 100% of the principal amount plus accrued interest. Thereafter, this series of bonds may be remarketed in a fixed or variable rate mode. Interest is payable semi-annually in arrears on April 1 and October 1.

PG&E Corporation issued 2,340,451 shares of common stock upon the exercise of employee stock options and under its 401(k) plan and Dividend Reinvestment and Stock Purchase Plan generating \$89 million of cash during the six months ended June 30, 2010. PG&E Corporation issued 16,370,779 shares of common stock upon conversion of the \$247 million principal amount of PG&E Corporation's Convertible Subordinated Notes at a conversion price of \$15.09 per share between June 23 and June 29, 2010. These notes were no longer outstanding at June 30, 2010, and the conversion had no impact on cash.

PG&E Corporation also contributed \$130 million of cash to the Utility during the six months ended June 30, 2010 to ensure that the Utility had adequate capital to fund its capital expenditures and to maintain the 52% common equity target authorized by the CPUC.

Future Financing Needs

The amount and timing of the Utility's future financing needs will depend on various factors, including the timing and amount of forecasted capital expenditures, the amount of cash internally generated through normal business operations, the conditions in the capital markets, and other factors. The Utility's future financing needs will also depend on the timing of the resolution of the Chapter 11 disputed claims and the amount of interest on these claims that the Utility will be required to pay. (See Note 10 of the Notes to the Condensed Consolidated Financial Statements.)

PG&E Corporation may issue debt or equity in the future to fund equity contributions to the Utility and to fund investments to the extent that internally generated funds are not sufficient. As of June 30, 2010, PG&E Corporation made certain tax equity investments (see "PG&E Corporation" below) and may fund similar investments in the future, resulting in additional financing needs. Assuming that PG&E Corporation and the Utility can access the capital markets on reasonable terms, PG&E Corporation and the Utility believe that the Utility's cash flow from operations, existing sources of liquidity, and future financings will provide adequate resources to fund operating activities, meet anticipated obligations, and finance future capital expenditures and investments.

Dividends

During the six months ended June 30, 2010, PG&E Corporation paid common stock dividends totaling \$320 million, net of \$6 million that was reinvested in additional shares of common stock by participants in the Dividend Reinvestment and Stock Purchase Plan. On June 16, 2010, the Board of Directors of PG&E Corporation declared dividends of \$0.455 per share, totaling \$178 million, which were paid on July 15, 2010 to shareholders on record as of June 30, 2010.

During the six months ended June 30, 2010, the Utility paid common stock dividends totaling \$358 million to PG&E Corporation.

Table of Contents

During the six months ended June 30, 2010, the Utility paid dividends totaling \$7 million to holders of its outstanding series of preferred stock. On June 16, 2010, the Board of Directors of the Utility declared dividends totaling \$4 million on its outstanding series of preferred stock, payable on August 15, 2010, to shareholders on record as of July 30, 2010.

Utility

Operating Activities

The Utility's cash flows from operating activities primarily consist of receipts from customers less payments of operating expenses, other than expenses such as depreciation that do not require the use of cash.

The Utility's cash flows from operating activities for the six months ended June 30, 2010 and 2009 were as follows:

(in millions)	Six Months Ended June 30,	
	2010	2009
Net income	\$ 603	\$ 630
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and decommissioning	1,016	932
Allowance for equity funds used during construction	(57)	(47)
Deferred income taxes and tax credits, net	(1)	368
Other changes in noncurrent assets and liabilities	(63)	(34)
Effect of changes in operating assets and liabilities:		
Accounts receivable	(81)	199
Inventories	(20)	113
Accounts payable	4	(140)
Income taxes receivable/payable	475	64
Regulatory balancing accounts, net	(206)	(228)
Other current assets	28	10
Other current liabilities	(316)	(220)
Other	—	3
Net cash provided by operating activities	<u>\$1,382</u>	<u>\$1,650</u>

In the six months ended June 30, 2010, net cash provided by operating activities decreased by \$268 million compared to the same period in 2009 primarily due to an increase of \$206 million in net collateral paid by the Utility related to price risk management activities in 2010. Collateral payables and receivables are included in other changes in noncurrent assets and liabilities, other current assets, and other current liabilities in the table above. (See Note 7 of the Notes to the Condensed Consolidated Financial Statements.) The decrease also reflects \$36 million of additional net tax refunds received in 2009 compared to 2010. The remaining decreases in cash flows from operating activities consisted of miscellaneous other changes in operating assets and liabilities due to timing differences.

Various factors can affect the Utility's future operating cash flows, including the timing of cash collateral payments and receipts related to price risk management activity. The Utility's cash collateral activity will fluctuate based on changes in the Utility's net credit exposure to counterparties which primarily depends on electricity and gas price movement.

The Utility's operating cash flows also will be impacted by electricity procurement costs and the timing of rate adjustments authorized to recover these costs. The CPUC has established a balancing account mechanism to adjust the Utility's electric rates whenever the forecasted aggregate over-collections or under-collections of the Utility's electric procurement costs for the current year exceed 5% of the Utility's prior-year generation revenues, excluding generation revenues for DWR contracts. The Utility updated its forecasted 2010 electricity procurement costs in November 2009 for inclusion in the annual electric true-up proceeding, which adjusted electric and gas rates on January 1, 2010 to (1) reflect over- and under-collections in the Utility's major electric and gas balancing accounts, and (2) implement various other electricity and gas revenue requirement changes authorized by the CPUC and the FERC.

Additionally, effective on June 1, 2010, the Utility began a program to provide expedited rate relief to customers. The program, which will continue through the end of 2010, includes a reduction in system bundled average electric rates coupled with a rebalancing of the residential rate tiers to reduce rates in the highest tiers. The rate reduction is expected to reduce 2010 retail electric revenues by \$268

Table of Contents

million. To provide this reduction, the Utility has accelerated the refund of various over-collections that otherwise would not be reflected in adjusted rates until January 2011 and the Utility has suspended collection of the authorized revenue requirement for the currently under-spent funds in the California Solar Initiative Program. The rate relief program will have no impact on net income for the Utility.

Investing Activities

The Utility's investing activities consist of construction of new and replacement facilities necessary to deliver safe and reliable electricity and natural gas services to its customers. Cash used in investing activities depends primarily upon the amount and timing of the Utility's capital expenditures, which can be affected by many factors, including the timing of regulatory approvals and the occurrence of storms and other events causing outages or damage to the Utility's infrastructure. Cash used in investing activities also includes the proceeds from sales of nuclear decommissioning trust investments which are largely offset by the amount of cash used to purchase new nuclear decommissioning trust investments.

The Utility's cash flows from investing activities for the six months ended June 30, 2010 and 2009 were as follows:

(in millions)	Six Months Ended June 30,	
	2010	2009
Capital expenditures	\$(1,786)	\$(2,077)
Decrease in restricted cash	50	15
Proceeds from sales and maturities of nuclear decommissioning trust investments	685	954
Purchases of nuclear decommissioning trust investments	(696)	(985)
Other	11	5
Net cash used in investing activities	\$(1,736)	\$(2,088)

Net cash used in investing activities decreased by \$352 million in the six months ended June 30, 2010, compared to the same period in 2009. This decrease was primarily due to a decrease of \$291 million in capital expenditures as a result of the timing of capital projects.

Future cash flows used in investing activities are largely dependent on expected capital expenditures. (See "Capital Expenditures" below and in the 2009 Annual Report for further discussion of expected spending and significant capital projects.)

Financing Activities

The Utility's cash flows from financing activities for the six months ended June 30, 2010 and 2009 were as follows:

(in millions)	Six Months Ended June 30,	
	2010	2009
Borrowings under revolving credit facilities	\$ —	\$ 300
Repayments under revolving credit facilities	—	(300)
Net issuance (repayments) of commercial paper, net of discount of \$1 in 2010 and \$3 in 2009	693	(47)
Proceeds from issuance of short-term debt, net of issuance costs of \$1 in 2009	—	499
Proceeds from issuance of long-term debt, net of discount and issuance costs of \$5 in 2010 and \$12 in 2009	295	538
Short-term debt matured	(500)	—
Long-term debt matured	—	(600)
Energy recovery bonds matured	(182)	(174)
Preferred stock dividends paid	(7)	(7)
Common stock dividends paid	(358)	(312)
Equity contribution	130	653
Other	9	(6)
Net cash provided by financing activities	\$ 80	\$ 544

In the six months ended June 30, 2010, net cash provided by financing activities decreased by \$464 million compared to the same period in 2009. Cash provided by or used in financing activities is driven by the Utility's financing needs, which depend on the level of cash provided by or used in operating activities and the level of cash provided by or used in investing activities. The Utility generally utilizes long-term senior unsecured debt issuances and equity contributions from PG&E Corporation to fund debt maturities and capital expenditures and to maintain its CPUC-authorized capital structure, and relies on short-term debt to fund temporary financing needs.

Table of Contents

PG&E Corporation

As of June 30, 2010, PG&E Corporation's affiliates had entered into tax equity agreements with two privately held companies, SolarCity Corp. ("SolarCity") and SunRun, Inc. ("SunRun"), to fund residential and commercial retail solar energy installations. Under master lease agreements with SolarCity, PG&E Corporation will provide payments of up to \$80 million, and in return, receive a share of SolarCity customer lease revenues, along with the benefits of local rebates and federal investment tax credits. Under an agreement with SunRun, PG&E Corporation will invest up to \$100 million and will receive a share of customer payments, as well as federal investment tax credits and other tax benefits. As of June 30, 2010, PG&E Corporation had made total payments of \$33 million under these tax equity agreements. On July 1, 2010, PG&E Corporation borrowed \$60 million under its \$187 million credit facility to further fund these two projects. PG&E Corporation's financial exposure for these arrangements is limited to its lease payments to SolarCity and investment contributions to SunRun.

In addition to the investments above, PG&E Corporation had the following material cash flows on a stand-alone basis for the six months ended June 30, 2010 and 2009; dividend payments, interest, common stock issuance, the issuance of 5.75% Senior Notes in the principal amount of \$350 million in March 2009, net tax refunds of \$131 million in 2009, and transactions between PG&E Corporation and the Utility.

CONTRACTUAL COMMITMENTS

PG&E Corporation and the Utility enter into contractual commitments in connection with business activities. These future obligations primarily relate to financing arrangements (such as long-term debt, preferred stock, and certain forms of regulatory financing), purchases of electricity and natural gas for customers, purchases of transportation capacity, purchases of renewable energy, and the purchase of fuel and transportation to support the Utility's generation activities. In addition to those commitments disclosed in the 2009 Annual Report and those arising from normal business activities, the Utility issued \$250 million of senior notes on April 1, 2010, entered into a loan agreement to repay the California Infrastructure and Economic Development Bank which issued \$50 million of tax-exempt pollution control bonds on behalf of the Utility on April 8, 2010, and entered into a \$750 million unsecured revolving credit agreement with a syndicate of lenders on June 8, 2010. (Refer to the 2009 Annual Report, the Liquidity and Financial Resources section above and Notes 4 and 11 of the Notes to the Condensed Consolidated Financial Statements.)

CAPITAL EXPENDITURES

Utility

Most of the Utility's revenue requirements to recover forecasted capital expenditures are authorized in the GRC, TO rate cases, and gas transmission and storage rate cases. (See "Regulatory Matters" below.) The Utility also collects additional revenue requirements to recover capital expenditures related to projects that have been specifically authorized by the CPUC, such as new power plants, gas or electric distribution projects, and the SmartMeter™ advanced metering infrastructure. The Utility's proposals for significant capital projects that have been submitted for CPUC approval are discussed in the 2009 Annual Report. Recent developments in authorized or proposed capital projects since the 2009 Annual Report was filed are discussed below.

Electric Distribution Reliability Program

On June 24, 2010, the CPUC authorized the Utility to recover capital expenditures of \$357 million beginning in 2010 and continuing through 2013 to implement electric distribution reliability improvement projects designed to decrease the frequency and duration of electricity outages. The Utility had requested that the CPUC approve a more comprehensive six-year reliability improvement program at an estimated capital cost of approximately \$2.0 billion. The CPUC determined that the Utility had not demonstrated the need for the entirety of the requested capital expenditure amount and authorized a scaled-back three-year program to implement portions of the Utility's proposed program. The CPUC also noted that any future investment in reliability projects can be considered in the Utility's 2014 General Rate Case and subsequent general rate cases. The CPUC adopted the Utility's proposal to set rates based on the adopted cost forecasts with a balancing account to accumulate any difference in revenue requirement based on recorded costs compared to the adopted forecast. The Utility is required to file annual reports (by March 1) to describe work performed during the previous calendar year and to include a forecast of work to be performed in the current year.

Table of Contents

New Generation Facilities

Proposed Oakley Generation Facility

In September 2009, the Utility requested that the CPUC approve several agreements for new long-term generation resources to meet forecasted customer demand, including three power purchase agreements and an agreement for a third party to develop and construct a new 586 megawatt ("MW") natural gas-fired facility in Oakley, California that would be transferred to the Utility upon completion. On July 29, 2010, the CPUC approved the power purchase agreements but the CPUC denied the Utility's request for approval of the proposed Oakley generation facility finding that the new facility is not needed to meet forecasted customer demand. The CPUC indicated that the Utility may submit another application for approval of this project under certain circumstances.

Humboldt Bay Generating Station

As of June 30, 2010, the Utility has incurred \$187 million to construct a 163 MW power plant to re-power the Utility's existing power plant at Humboldt Bay which is at the end of its useful life. The CPUC has authorized the Utility to recover associated capital costs of \$239 million for the construction. Humboldt Bay began operational testing in June 2010 and is expected to commence commercial operations in the third quarter of 2010.

Colusa Generating Station

As of June 30, 2010, the Utility has incurred project costs of \$599 million to construct a 657 MW combined cycle generating facility located in Colusa County, California. The CPUC has authorized the Utility to recover capital costs of \$673 million for the construction of the facility. Subject to meeting operational performance requirements and other conditions, it is anticipated that the Colusa Generating Station will commence operations by the end of 2010.

New Renewable Energy Development

On April 22, 2010, the CPUC approved the Utility's proposed five-year program for the development of renewable generation resources based on solar photovoltaic ("PV") technology. The CPUC authorized the Utility to develop up to 250 MW of PV facilities and to enter into power purchase agreements for an additional 250 MW of PV facilities to be developed by third parties. The Utility has been authorized to build 50 MW of utility-owned PV facilities each year of the program. If the Utility builds less than 50 MW in a program year, it may roll forward no more than 10 MW of un-deployed capacity to be developed in a subsequent program year. The CPUC has authorized the Utility to recover its actual capital costs to develop utility-owned PV facilities, subject to an aggregate price cap of up to \$1.45 billion based on the maximum 250 MW authorized to be developed by the Utility. If total capital costs exceed the cost cap, the Utility could only recover such costs after obtaining CPUC approval. The CPUC also established an incentive mechanism that allows the Utility shareholders to retain 10% of the savings if the actual average per-kilowatt capital cost of the Utility-owned PV facilities is less than \$3,920 per kilowatt. The remaining 90% of any such savings would be passed through to customers. As the Utility's new PV facilities begin commercial operation, the project costs would be included in the Utility's rate base and the Utility would be entitled to earn a rate of return on the additional rate base.

The Utility has submitted advice letters to the CPUC requesting approval of the processes to be used by the Utility to solicit offers from third-parties to develop the Utility-owned portion of the PV program and to solicit offers to enter into power purchase agreements. These requests have not yet been approved. The first year of the PV program will not begin until the approval of the solicitation process for the Utility-owned portion of the program becomes final and non-appealable. It is uncertain when the solicitation process will be approved and when the approval will become final and non-appealable.

PG&E Corporation

PG&E Corporation, through its subsidiary, PG&E Strategic Capital, Inc., along with Fort Chicago Energy Partners, L.P. and Williams Gas Pipeline Company, LLC, have been jointly pursuing the development of the proposed Pacific Connector Gas Pipeline, an interstate gas transmission pipeline that would connect with the proposed liquefied natural gas ("LNG") terminal in Coos Bay, Oregon being developed by Fort Chicago Energy Partners, L.P. as lead investor. The construction of the pipeline is dependent upon the construction of the LNG terminal. In December 2009, the FERC issued an order to authorize construction and operation of the LNG terminal and the pipeline. There are additional federal, state, and local permits and authorizations that must be obtained before construction can proceed. In addition, commitments must be obtained from LNG suppliers and shippers under long-term contracts of sufficient volumes to justify moving forward with construction of the LNG terminal and the pipeline. The desire of LNG suppliers to make such commitments is dependent on the world market for LNG, the price in various markets compared to the U.S. price, and the overall level of supply and demand for LNG. In the U.S., the gas supply landscape has changed considerably since the LNG terminal and pipeline were first contemplated. Enhanced drilling techniques have increased access to shale gas and created significant gas reserves which may decrease the need for LNG sourced natural gas. As such, PG&E Corporation cannot predict whether construction of the proposed LNG terminal and associated pipeline will occur nor whether PG&E Corporation will continue to invest in the proposed pipeline project.

Table of Contents

OFF-BALANCE SHEET ARRANGEMENTS

PG&E Corporation and the Utility do not have any off-balance sheet arrangements that have had, or are reasonably likely to have, a current or future material effect on their financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

CONTINGENCIES

PG&E Corporation and the Utility have significant contingencies; including Chapter 11 disputed claims, tax matters, legal matters, and environmental matters, which are discussed in Notes 10 and 11 of the Notes to the Condensed Consolidated Financial Statements.

REGULATORY MATTERS

This section of MD&A discusses significant regulatory developments that have occurred since the 2009 Annual Report was filed with the SEC.

2011 General Rate Case Application

On July 30, 2010, following the conclusion of the CPUC hearings in the Utility's 2011 GRC, the Utility and the CPUC's Division of Ratepayer Advocates ("DRA") filed a joint comparison exhibit with the CPUC showing differences between updated revenue requirement amounts requested by the Utility and amounts recommended by the DRA. The Utility's updated revenue requirement is approximately \$6.6 billion, as compared to approximately \$6.7 billion, the amount originally requested in its December 21, 2009 GRC application. The DRA currently recommends that the Utility's 2011 revenue requirement be set at a level that is \$883 million lower than the amount currently requested by the Utility. The DRA's current recommendation is lower than the amount recommended in its May 5, 2010 report. The Utility requests a \$1.1 billion revenue increase comprised of increases in electric distribution, utility-owned generation, and gas distribution revenue requirements of \$527 million, \$329 million, and \$208 million, respectively. The DRA's revised recommendation would result in a total revenue requirement increase of \$181 million comprised of electric distribution and utility-owned generation increases of \$144 million and \$49 million, respectively, and a gas distribution revenue requirement reduction of \$12 million.

The \$883 million difference between the Utility's request and the DRA's recommendation reflects reductions in all cost categories including operating and maintenance costs, administrative and general expense, and capital investments. Among other assumptions as to future costs which differ from the Utility's request, the DRA has assumed that the Utility would connect fewer customers, undertake less preventative maintenance, and replace aging equipment more slowly. The DRA has also recommended reductions in employee benefit costs and other overhead costs. The DRA recommends funding the Utility's electric and gas distribution, and existing electric generation capital expenditures at approximately \$2.1 billion in 2011, as compared to the Utility's projection of average annual capital expenditures of \$2.6 billion from 2011 to 2013. (Capital expenditures related to the GRC do not include projected capital spending related to electric and gas transmission and other separately funded capital projects such as proposed new generation resources.)

The DRA has recommended revised attrition increases of \$115 million for 2012 and \$106 million for 2013, based on forecasted increases in the consumer price index, as compared to the Utility's updated forecast of attrition increases of \$262 million in 2012 and \$334 million in 2013.

According to the CPUC's procedural schedule, a proposed decision is calendared to be released by November 16, 2010 and a final CPUC decision to be issued by December 16, 2010.

PG&E Corporation and the Utility are unable to predict the amount of the revenue requirements that the CPUC will authorize or whether the current schedule will be maintained.

Electric Transmission Owner Rate Cases

On July 27, 2010, the FERC approved an uncontested settlement of the Utility's 12th TO rate case. The settlement sets the Utility's annual retail transmission base revenue requirement at \$875 million effective March 1, 2010. Retail electric rates were adjusted on June 1, 2010 to reflect the revenue requirement adopted in the settlement and the Utility has reserved the difference between revenues collected in the rates requested by the Utility in its TO rate application,

Table of Contents

from March 1, 2010 until May 31, 2010, and the rates agreed to in the settlement. As a result, the settlement will not impact the Utility's results of operations or financial condition. The Utility will refund any over-collected amounts to customers, with interest, through an adjustment to rates in 2011.

On July 28, 2010, the Utility filed an application for its 13th TO rate case at the FERC requesting an annual retail revenue requirement of approximately \$1.0 billion, a \$151 million increase over the rates included in the settlement discussed above. This increase is largely driven by the Utility's expectation to make investments of \$765 million in 2010 and \$810 million in 2011 in various capital projects, including projects to add transmission capacity, expand automation technology, improve overall system reliability, and maintain and replace equipment at substations. The Utility requested that new rates become effective on October 1, 2010. In accordance with past practice, the Utility expects that the FERC will suspend the requested increase for an additional five months which would result in a March 1, 2011 effective date.

On June 17, 2010, the FERC issued a notice of proposed rulemaking and established a proceeding to examine, among other issues, whether to change the FERC's existing policy that provides incumbent traditional public utilities a "right of first refusal" to own, construct, and operate transmission facilities within their respective service territories. The rules that the FERC adopts in this proceeding may introduce additional competition from merchant or independent transmission project developers for the construction of certain transmission facilities that does not exist today. The rules that the FERC may adopt are not expected to impact the Utility's transmission investment in 2010 or 2011.

2011 Gas Transmission and Storage Rate Case

In the Utility's 2011 gas transmission and storage rate case, the CPUC will determine the rates and terms and conditions of the Utility's gas transmission and storage services beginning January 1, 2011 and continuing through 2014. On July 29, 2010, a settlement conference was held to discuss a proposed settlement, the terms of which are confidential until the agreement is submitted to the CPUC for approval.

If the CPUC does not issue a final decision by the end of 2010, the rates and terms and conditions of service in effect as of December 31, 2010 will remain in effect, with an automatic 2% escalation in rates, for local transmission only, starting January 1, 2011. The CPUC has amended its procedural schedule to permit a final decision to be issued by the second quarter of 2011 with the authorized revenue requirements retroactive to January 1, 2011. The Utility would be authorized to request permission from the CPUC to adjust rates for the remainder of the year to recover its authorized annual revenues for 2011.

Energy Efficiency Programs and Incentive Ratemaking

The CPUC has established a ratemaking mechanism to provide incentives to the California investor-owned utilities to meet the CPUC's energy savings goals through implementation of the utilities' 2006-2008 energy efficiency programs. In accordance with this mechanism, the CPUC has awarded the Utility interim incentive revenues totaling \$75 million through December 31, 2009 based on the energy savings achieved through implementation of the Utility's energy efficiency programs during the 2006 through 2008 program cycle. The amount of additional incentive revenues the Utility may earn, if any, is subject to the CPUC's completion of the final true-up process. In April 2010, the assigned CPUC commissioner directed the parties to hold settlement discussions in an effort to agree on the 2010 final true-up amounts. The CPUC commissioner also directed the Energy Division to calculate various true-up amounts based on a range of possible scenarios that use different assumptions about energy savings, goals, and costs, noting that the CPUC can consider alternative approaches to calculate the final true-up amounts instead of relying solely on the Energy Division's evaluation of the final energy savings over the 2006-2008 program cycle.

On May 4, 2010, the Energy Division released various scenarios of additional incentive amounts using data from the Energy Division's draft evaluation report released on April 15, 2010. The calculation scenarios for the Utility range from a penalty of \$75 million, based on a scenario using the Energy Division's evaluated results, to a reward of \$105 million. The Energy Division's draft report did not include the scenario jointly proposed by the utilities. On July 9, 2010, the Energy Division released its final evaluation report and updated the results of its scenario calculations. The range of possible final true-up amounts contained in the final scenario report are substantially the same as the amounts contained in the scenario report released in May 2010. On July 16, 2010, the utilities submitted data to the CPUC to support the utilities' joint scenario using the verified results in the Energy Division's final evaluation report. Based on this scenario, the Utility would be entitled to additional incentive revenues of approximately \$63 million.

The CPUC is scheduled to issue a final decision to complete the true-up process by the end of 2010. PG&E Corporation and the Utility are unable to predict the amount, if any, of additional incentive revenues or penalties the Utility may be assessed for the 2006-2008 program cycle.

The CPUC's rulemaking proceeding to consider modifications to the existing incentive ratemaking mechanism that would apply to future energy efficiency program cycles is still pending. It is uncertain when the CPUC will issue a decision in this proceeding.

Table of Contents

Direct Access

As authorized by California Senate Bill 695, on March 11, 2010, the CPUC adopted a plan to re-open “direct access” on a limited and gradual basis to allow eligible customers of the three California investor-owned utilities to purchase electricity from independent electric service providers rather than from a utility. Effective April 11, 2010, all qualifying non-residential customers became eligible to take direct access service subject to annual and absolute caps. It is estimated that the total amount of direct access that will be allowed in the Utility’s service territory by the end of the four-year phase-in period will be equal to approximately 11% of the Utility’s total annual retail sales at the end of the period, roughly the highest level that was reached before the CPUC suspended direct access. Further legislative action is required to exceed these limits. The adopted phase-in schedule is designed to provide enough lead time for the utilities to account for small shifts in load and avoid unwarranted cost shifting and stranded costs.

2009 Energy Resource Recovery Account Compliance Proceeding

The Utility recovers its electricity procurement costs and the fuel costs for the Utility’s own generation facilities (but excluding the costs of electricity allocated to the Utility’s customers under DWR contracts) through the Energy Resource Recovery Account (“ERRA”), a balancing account that tracks the difference between (1) billed/unbilled ERRA revenues and (2) electric procurement costs incurred under the Utility’s authorized procurement plans. To determine rates used to collect ERRA revenues, each year the CPUC reviews the Utility’s forecasted costs under power purchase agreements and fuel costs and approves a forecasted revenue requirement. The CPUC also performs an annual compliance review of the procurement activities recorded in the ERRA to ensure that the Utility’s procurement activities are in compliance with its approved procurement plans.

On July 9, 2010, the DRA filed testimony in the 2009 ERRA compliance proceeding that recommended that the CPUC disallow \$176 million of costs that the DRA estimates the Utility incurred in 2009 to buy power during 110 outages of the Utility’s own generation facilities. The DRA argued that since the Utility did not present evidence of the reasonableness of its outage management activities and the related replacement costs in its initial application and testimony, these costs should be disallowed. On July 16, 2010, the Utility requested that the CPUC strike the DRA’s testimony, noting that the Utility had not been required to provide such evidence in previous ERRA compliance applications, and that the Utility has provided such information through the discovery process.

If the Utility is unable to conclude that the costs the DRA recommends be disallowed are probable of recovery through the ERRA ratemaking mechanism or other cost recovery mechanisms, the Utility would incur a charge to income for the amount of such costs. The Utility continues to believe that these costs are probable of recovery and that it is remote the costs would be disallowed.

CPUC Rulemaking Proceeding Regarding Electric Vehicles

On July 29, 2010, the CPUC approved a decision finding that the California Legislature did not intend that the CPUC regulate providers of electric vehicle charging services as public utilities. However, the decision also finds that the CPUC has authority to regulate aspects of electric vehicle charging services, including rules relating to the deployment of electric vehicles; the terms under which a utility will provide services to the electric vehicle charging provider; retail electricity rates paid by the electric vehicle charging provider to a regulated utility; standards and protocols to ensure functionality and interoperability between utilities and electric vehicle charging providers; and various electricity procurement requirements that apply to electricity service providers generally, such as resource adequacy and renewable energy procurement standards. A second phase of the CPUC proceeding will examine the role of the regulated utility in electric vehicle charging programs, ways to manage the impact of such programs on the electric infrastructure, the cost to customers of such programs, and other issues.

ENVIRONMENTAL MATTERS

The Utility’s operations are subject to extensive federal, state, and local laws and permits relating to the protection of the environment and the safety and health of the Utility’s personnel and the public. (See “Risk Factors” in the 2009 Annual Report.) These laws and requirements relate to a broad range of the Utility’s activities, including the discharge of pollutants into the air, water, and soil; the transportation, handling, storage, and disposal of spent nuclear fuel; remediation of hazardous wastes; and the reporting and reduction of carbon dioxide and other GHG emissions. Recent developments since the 2009 Annual Report was filed are discussed below.

Table of Contents

Climate Change

The California Global Warming Solutions Act of 2006 (“AB 32”) requires the gradual reduction of GHG emissions in California to 1990 levels by 2020 on a schedule beginning in 2012. (See “Environmental Matters” in the 2009 Annual Report.) In December 2008, the California Air Resources Board (“CARB”), the state agency charged with setting and monitoring emission limits, adopted a scoping plan that contains recommendations for achieving the maximum technologically feasible and cost-effective GHG reductions to meet the 2020 reduction target. These recommendations include increasing renewable energy supplies, increasing energy efficiency goals, expanding the use of combined heat and power facilities, and developing a multi-sector cap-and-trade program. On November 2, 2010, Californians will vote on Proposition 23, a ballot initiative that seeks to suspend AB 32. PG&E Corporation and the Utility oppose this ballot initiative and intend to continue working closely with the state Legislature, the CARB, the CPUC, the CEC, and other concerned stakeholders to ensure responsible implementation of AB 32.

In July 2010, PG&E Corporation and the Utility posted their annual Corporate Responsibility and Sustainability Report at <http://www.pgecorp.com>. This report includes the Utility’s third-party verified GHG emissions data for 2008. (Preliminary emissions data for 2008 was contained in the 2009 Annual Report.) The Corporate Responsibility and Sustainability Report also discusses measures that PG&E Corporation and the Utility are taking to address GHG emissions and to work collaboratively to develop and implement responsible policies and practices related to climate change.

Renewable Energy Resources

In an effort to reduce GHG emissions, California law requires California retail sellers of electricity, such as the Utility, to comply with a renewable portfolio standard (“RPS”) by increasing their deliveries of renewable energy (such as biomass, hydroelectric facilities with a capacity of 30 MW or less, wind, solar, and geothermal energy) each year, so that the amount of electricity delivered from these eligible renewable resources equals at least 20% of their total retail sales by the end of 2010. If a retail seller is unable to meet its target for a particular year, the current CPUC “flexible compliance” rules allow the retail seller to use future energy deliveries from already-executed contracts to satisfy any shortfalls, provided those deliveries occur within three years of the shortfall. For the year ending December 31, 2009, the Utility’s RPS-eligible renewable resource deliveries equaled 14.4% of its total retail electricity sales. Most of the renewable energy that was delivered was purchased by the Utility from third parties, mainly under agreements with qualifying facility generators, irrigation districts and other bilateral contracts. As of June 30, 2010, the Utility believes it will meet the RPS mandate for 2010 through reliance on the CPUC’s flexible compliance rules. The California Legislature also is considering legislation, Senate Bill 722, that proposes to establish a 33% RPS by 2020. The current session of the California Legislature is scheduled to end on August 31, 2010.

Uncertainty still exists regarding whether tradable renewable energy credits (“RECs”), the green attributes of renewable power, can be used to comply with the current RPS requirements. A tradable REC refers to a certificate of proof of the procurement of the green attributes unbundled from the associated energy, which certificate may be transferred to any third party and resold. The CPUC issued a decision in March 2010 which, among other provisions, permits investor-owned utilities to use tradable RECs to comply with up to 25% of their annual RPS procurement target in any year and carry over any excess RECs for compliance in future years. For purposes of computing the annual 25% limit, the CPUC has defined a REC to include not only a transaction for the procurement of unbundled RECs without energy but also a transaction for the procurement of both RECs and energy if the generator’s first point of interconnection is not with a California balancing authority or the energy is not dynamically transferred to a California balancing authority area. As a result, most of the Utility’s existing power purchase contracts with out-of-state renewable generation facilities would be classified as REC-only contracts under the March 2010 decision. After several parties, including the Utility, requested the CPUC to modify its decision the CPUC stayed the effectiveness of its decision and imposed a temporary moratorium on CPUC approval of any power purchase contracts that would be classified as REC-only transactions under its decision. The Utility is unable to predict when the CPUC will act on the petitions and lift the moratorium. In addition, it is uncertain how Senate Bill 722, if it is enacted, would affect the use of RECs in complying with a new higher RPS requirement.

In addition, on June 3, 2010, the CARB, the state agency charged with setting and monitoring emission limits, issued revised draft regulations that propose to establish a renewable electricity standard (“RES”) that would create higher renewable energy requirements than established under the current RPS law. The proposed RES would require all load-serving entities, including the Utility, to meet renewable energy targets of 20% in 2012 through 2014, 24% in 2015 through 2017, 28% in 2018 through 2019, and 33% in 2020 and beyond. Regulated parties would be allowed to use an unlimited number of unbundled RECs to comply with the new RES, but unlike the definition of RECs adopted by the CPUC, the associated energy would not have to be purchased or delivered into California. Under the proposed RES, penalties could be imposed for failure to meet one of the RES compliance interval targets. The CARB has postponed its vote on the new RES regulations until September 23, 2010 to accommodate the ongoing legislative discussions about Senate Bill 722.

Table of Contents

Water Quality

There is continuing uncertainty about the status of state and federal regulations issued under Section 316(b) of the Clean Water Act, which require that cooling water intake structures at electric power plants, such as the nuclear generation facilities at Diablo Canyon, reflect the best technology available to minimize adverse environmental impacts. Although the EPA has not yet issued revised regulations, on May 4, 2010, the California Water Resources Control Board (“Water Board”) adopted a policy on once-through cooling. The policy, which is subject to approval by the California Office of Administrative Law, generally requires the installation of cooling towers or other significant measures to reduce the impact on marine life from existing power generation facilities by at least 85%. However, with respect to the state’s nuclear power generation facilities, the policy allows other compliance measures to be taken if the costs to install cooling towers are “wholly out of proportion” to the costs considered by the Water Board in developing its policy or if the installation of cooling towers would be “wholly unreasonable” after considering non-cost factors such as engineering and permitting constraints and adverse environmental impacts. The Utility believes that the costs to install cooling towers at Diablo Canyon, which could be as much as \$4.5 billion, will meet the “wholly out of proportion” test. The Utility also believes that the installation of cooling towers at Diablo Canyon would be “wholly unreasonable.” If the Water Board disagreed and if the installation of cooling towers at Diablo Canyon were not technically or economically feasible, the Utility may be forced to cease operations at Diablo Canyon and may incur a material charge. (See Note 16 of the Notes to the Consolidated Financial Statements in the 2009 Annual Report for more information.) Assuming the Water Board does not require the installation of cooling towers at Diablo Canyon, the Utility could incur significant costs to comply with alternative compliance measures or to make payments to support various environmental mitigation projects. The Utility would seek to recover such costs in rates. The Utility’s Diablo Canyon operations must be in compliance with the Water Board’s policy by December 31, 2024.

Remediation

The Utility has a program, in cooperation with the California Environmental Protection Agency, to evaluate and take appropriate action to mitigate any potential environmental concerns posed by certain former MGPs located throughout the Utility’s service territory. Of the 41 MGP sites owned or operated by the Utility, 33 have been or are in the process of being remediated. The Utility has notified the owners of properties located on the remaining eight sites and offered to test the soil for residues, and depending on the results of such tests, to take appropriate remedial action. Two of these sites are located in urban, residential areas of San Francisco and one site is located in a predominantly commercial area of San Francisco. Although the Utility has entered into or is negotiating site access agreements with some of the property owners, others have not responded to the Utility’s offer. Until its investigation is complete, the extent of its obligation to remediate is established, and appropriate remedial actions are determined, the Utility is unable to estimate the ultimate amount it may incur with respect to the remediation of these sites. (See Note 11 of the Notes to the Condensed Consolidated Financial Statements, for a discussion of estimated environmental remediation liabilities.)

OTHER MATTERS

SmartMeter™ Technology

The CPUC has authorized the Utility to recover \$2.2 billion in estimated project costs, including \$1.8 billion of capital expenditures to install approximately 10 million advanced electric and gas meters throughout the Utility’s service territory by the end of 2012. In addition, the Utility can recover in rates 90% of up to \$100 million in costs that exceed the authorized \$2.2 billion without a reasonableness review by the CPUC. The remaining 10% will not be recoverable in rates. If additional costs exceed the \$100 million threshold, the Utility may request recovery of the additional costs, subject to a reasonableness review. As of June 30, 2010, the Utility has incurred \$ 1.7 billion in connection with its SmartMeter™ program.

Advanced electric meters, which record energy usage in hourly or quarter-hourly increments, allow customers to track energy usage throughout the billing month and thus enable greater customer control over electricity costs. Usage data is collected through a wireless communication network and transmitted to the Utility’s information system where the data is stored and used for billing and other Utility business purposes. These meters will allow the implementation of “dynamic pricing” rates that the CPUC has ordered the Utility to implement. Dynamic pricing rates are designed to reflect the cost of electricity production during periods of high demand.

As of June 30, 2010, the Utility has installed approximately 6.1 million meters. Based on the tests that the Utility has performed, more than 99% of the meters perform accurately and as designed. The Utility found that a small percentage of the meters recorded inaccurate energy usage, were not properly installed, or were affected by issues relating to the meter’s data storage capabilities or wireless communication features. The Utility continues to believe that there is no design defect in the technology and that the SmartMeter™ system is performing within expectations. When issues are identified, the Utility is taking prompt action with the technology and services vendors to remediate the issues. In addition, the Utility has implemented new pre-installation quality control procedures. The Utility also has increased its customer education and outreach efforts, including posting weekly data reports on its website to inform customers and the public about the status of the Utility’s continuing assessment.

Table of Contents

An independent consultant selected by CPUC has been assessing the Utility's SmartMeter™ program, including meter and billing accuracy, customer complaints, end-to-end operational processes, and overall program planning and performance. It is expected that the independent CPUC assessment will be completed before the end of August 2010.

On June 17, 2010, the City and County of San Francisco ("CCSF") filed a petition requesting the CPUC to impose a temporary moratorium on the installation of additional SmartMeter™ devices until the CPUC has completed its independent assessment. The CPUC has not yet ruled on this request. Several other municipalities and counties in the Utility's service territory support CCSF's request for a moratorium or have indicated that they are considering taking other action to regulate or prohibit the installation of SmartMeter™ devices in their communities. The CPUC is also considering a request for a moratorium filed by a private group on April 15, 2010 until the CPUC conducts an evidentiary hearing on the potential health, environmental, and safety impacts of the radio frequency technology used in the Utility's SmartMeter™ program. The class action lawsuit filed against the Utility in the Superior Court in Bakersfield, California, containing allegations that the new meters, wireless network, and software and billing system have led to electric bill overcharges, remains stayed pending the results of the CPUC's investigation.

A California State Senate committee is continuing to investigate and review the deployment of the "smart grid" throughout California, focusing on the Utility's SmartMeter™ program and the integrity and reliability of new metering technologies and the consumer protections in place with respect to billing, disconnection, and real-time pricing. The Utility has provided all requested information to the committee about the installed meters. The committee is expected to submit its report to the California Senate, including recommendations for appropriate legislation, by November 30, 2010.

On June 1, 2010, a federal class action complaint was filed in San Francisco federal court alleging that the new meters report electric consumption in amounts materially greater than the electricity that the class members actually consumed, resulting in electric bill overcharges. The lawsuit names the various companies that have supplied SmartMeter™ devices, components, and software to the Utility but does not name the Utility as a defendant. The defendants have not yet responded to the complaint.

The Utility is continuing to install the new meters. The outcome of the matters discussed above may have an effect on the Utility's ability to recover costs to implement advanced metering if the CPUC finds that the costs are not reasonable or are otherwise disallowed. Further, if the Utility is prohibited from continuing to install the new meters or if the Utility otherwise fails to recognize the expected benefits of its advanced metering infrastructure, PG&E Corporation's and the Utility's financial condition, results of operations or cash flows could be materially adversely affected.

RISK MANAGEMENT ACTIVITIES

The Utility and PG&E Corporation, mainly through its ownership of the Utility, are exposed to market risk, which is the risk that changes in market conditions will adversely affect net income or cash flows. PG&E Corporation and the Utility face market risk associated with their operations; their financing arrangements; the marketplace for electricity, natural gas, electricity transmission, natural gas transportation, and storage; other goods and services; and other aspects of their businesses. PG&E Corporation and the Utility categorize market risks as "price risk" and "interest rate risk." The Utility is also exposed to "credit risk," the risk that counterparties fail to perform their contractual obligations.

The Utility actively manages market risks through risk management programs designed to support business objectives, discourage unauthorized risk-taking, reduce commodity cost volatility, and manage cash flows. The Utility uses derivative instruments only for risk mitigation purposes and not for speculative purposes. The Utility's risk management activities include the use of energy and financial instruments such as forward contracts, futures, swaps, options, and other instruments and agreements, most of which are accounted for as derivative instruments. Some contracts are accounted for as leases.

On July 21, 2010, President Obama signed into law new federal financial reform legislation, the Dodd-Frank Wall Street Reform and Consumer Protection Act. PG&E Corporation and the Utility are evaluating the new legislation, and will review future regulations to assess compliance requirements as well as potential impacts on the Utility's procurement activities and risk management programs.

Price Risk

The Utility is exposed to commodity price risk as a result of its electricity procurement activities, including the procurement of natural gas and nuclear fuel necessary for electricity generation and natural gas procurement for core customers. As long as the Utility can conclude that it is probable that its reasonably incurred wholesale electricity procurement costs and natural gas costs are recoverable, fluctuations in electricity and natural gas prices will not affect earnings but may impact cash flows. The Utility's natural gas transportation and storage costs for core customers are also fully recoverable through a ratemaking mechanism.

Table of Contents

The Utility's natural gas transportation and storage costs for non-core customers may not be fully recoverable. The Utility is subject to price and volumetric risk for the portion of intrastate natural gas transportation and storage capacity that has not been sold under long-term contracts providing for the recovery of all fixed costs through the collection of fixed reservation charges. The Utility sells most of its capacity based on the volume of gas that the Utility's customers actually ship, which exposes the Utility to volumetric risk.

The Utility uses value-at-risk to measure the shareholders' exposure to price and volumetric risks resulting from variability in the price of, and demand for, natural gas transportation and storage services that could impact revenues due to changes in market prices and customer demand. Value-at-risk measures this exposure over a rolling 12-month forward period and assumes that the contract positions are held through expiration. This calculation is based on a 95% confidence level, which means that there is a 5% probability that the impact to revenues on a pre-tax basis, over the rolling 12-month forward period, will be at least as large as the reported value-at-risk. Value-at-risk uses market data to quantify the Utility's price exposure. When market data is not available, the Utility uses historical data or market proxies to extrapolate the required market data. Value-at-risk as a measure of portfolio risk has several limitations, including, but not limited to, inadequate indication of the exposure to extreme price movements and the use of historical data or market proxies that may not adequately capture portfolio risk.

The Utility's value-at-risk calculated under the methodology described above was \$17 million at June 30, 2010. The Utility's high, low, and average values-at-risk at June 30, 2010 were \$18 million, \$10 million, and \$14 million, respectively.

See Note 7 of the Notes to the Condensed Consolidated Financial Statements for further discussion of price risk management activities.

Interest Rate Risk

Interest rate risk sensitivity analysis is used to measure interest rate risk by computing estimated changes in cash flows as a result of assumed changes in market interest rates. At June 30, 2010, if interest rates changed by 1% for all current PG&E Corporation and the Utility variable rate and short-term debt and investments, the change would affect net income for the next 12 months by \$9 million, based on net variable rate debt and other interest rate-sensitive instruments outstanding.

Credit Risk

The Utility conducts business with counterparties mainly in the energy industry, including other California investor-owned electric utilities, municipal utilities, energy trading companies, financial institutions, and oil and natural gas production companies located in the United States and Canada. If a counterparty failed to perform on its contractual obligation to deliver electricity or gas, then the Utility may find it necessary to procure electricity or gas at current market prices, which may be higher than the contract prices.

The Utility manages credit risk associated with its counterparties by assigning credit limits based on evaluations of their financial conditions, net worth, credit ratings, and other credit criteria as deemed appropriate. Credit limits and credit quality are monitored periodically. The Utility ties many energy contracts to master commodity enabling agreements that may require security (referred to as "Credit Collateral" in the table below). Credit Collateral may be in the form of cash or letters of credit. The Utility may accept other forms of performance assurance in the form of corporate guarantees of acceptable credit quality or other eligible securities (as deemed appropriate by the Utility). Credit Collateral or performance assurance may be required from counterparties when current net receivables and replacement cost exposure exceed contractually specified limits.

The following table summarizes the Utility's net credit risk exposure to its counterparties, as well as the Utility's credit risk exposure to counterparties accounting for greater than 10% net credit exposure, as of June 30, 2010 and December 31, 2009:

(in millions)	Gross Credit Exposure			Number of Wholesale Customers or Counterparties	Net Exposure to Wholesale Customers or Counterparties
	Before Credit Collateral (1)	Credit Collateral	Net Credit Exposure (2)		
June 30, 2010	\$ 189	\$ 36	\$ 153	2	\$ 124
December 31, 2009	\$ 202	\$ 24	\$ 178	3	\$ 154

(1) Gross credit exposure equals mark-to-market value on physically and financially settled contracts, notes receivable, and net receivables (payables) where netting is contractually allowed. Gross and net credit exposure amounts reported above do not include adjustments for time value or liquidity.

(2) Net credit exposure is the Gross Credit Exposure Before Credit Collateral minus Credit Collateral (cash deposits and letters of credit). For purposes of this table, parental guarantees are not included as part of the calculation.

CRITICAL ACCOUNTING POLICIES

The preparation of Condensed Consolidated Financial Statements in accordance with U.S. generally accepted accounting principles involves the use of estimates and assumptions that affect the recorded amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The accounting policies described below are considered to be critical accounting policies, due, in part, to their complexity and because their application is relevant and material to the financial position and results of operations of PG&E Corporation and the Utility, and because these policies require the use of material judgments and estimates. Actual results may differ substantially from these estimates. These policies and their key characteristics are discussed in detail in the 2009 Annual Report. They include:

- regulatory assets and liabilities;
- environmental remediation liabilities;
- asset retirement obligations;
- accounting for income taxes; and
- pension and other postretirement plans.

For the six-months ended June 30, 2010, there were no changes in the methodology for computing critical accounting estimates, no additional accounting estimates met the standards for critical accounting policies, and no material changes to the important assumptions underlying the critical accounting estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

PG&E Corporation's and the Utility's primary market risk results from changes in energy prices. PG&E Corporation and the Utility engage in price risk management activities for non-trading purposes only. Both PG&E Corporation and the Utility may engage in these price risk management activities using forward contracts, futures, options, and swaps to hedge the impact of market fluctuations on energy commodity prices and interest rates (see "Risk Management Activities" above under Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations).

ITEM 4. CONTROLS AND PROCEDURES

Based on an evaluation of PG&E Corporation's and the Utility's disclosure controls and procedures as of June 30, 2010, PG&E Corporation's and the Utility's respective principal executive officers and principal financial officers have concluded that such controls and procedures were effective to ensure that information required to be disclosed by PG&E Corporation and the Utility in reports that the companies file or submit under the Securities Exchange Act of 1934 ("1934 Act") is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms. In addition, PG&E Corporation's and the Utility's respective principal executive officers and principal financial officers have concluded that such controls and procedures were effective in ensuring that information required to be disclosed by PG&E Corporation and the Utility in the reports that PG&E Corporation and the Utility file or submit under the 1934 Act is accumulated and communicated to PG&E Corporation's and the Utility's management, including PG&E Corporation's and the Utility's respective principal executive officers and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in internal control over financial reporting that occurred during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, PG&E Corporation's or the Utility's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Diablo Canyon Power Plant

On May 4, 2010, the Water Board adopted a policy on once-through cooling. The policy, which is subject to approval by the California Office of Administrative Law, generally requires the installation of cooling towers or other significant measures to reduce the impact on marine life from existing power generation facilities by at least 85%. However, with respect to the state's nuclear power generation facilities, the policy allows other compliance measures to be taken if the costs to install cooling towers are "wholly out of proportion" to the costs considered by the Water Board in developing its policy or if the installation of cooling towers would be "wholly unreasonable" after considering non-cost factors such as engineering and permitting constraints and adverse environmental impacts. The policy could affect future negotiations between the Water Board and the Utility regarding the status of the 2003 settlement agreement concerning a proposed draft Cease and Desist Order issued by the Water Board against the Utility. For more information about the settlement agreement, see PG&E Corporation's and the Utility's joint Annual Report on Form 10-K for the year ended December 31, 2009. For more information about the state once-through cooling policy, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Environmental Matters – Water Quality" above.

PG&E Corporation and the Utility believe that the ultimate outcome of this matter will not have a material adverse impact on the Utility's financial condition or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended June 30, 2010, PG&E Corporation made equity contributions totaling \$110 million to the Utility in order to maintain the 52% common equity component of its CPUC-authorized capital structure and to ensure that the Utility has adequate capital to fund its capital expenditures.

During the quarter ended June 30, 2010, PG&E Corporation issued 16,370,779 shares of common stock at a conversion price of \$15.09 per share in unregistered offerings upon the conversion of \$247 million principal amount of PG&E Corporation Convertible Subordinated Notes originally issued in an unregistered offering in 2002. The Utility did not make any sales of unregistered equity securities during the quarter ended June 30, 2010.

Issuer Purchases of Equity Securities

During the quarter ended June 30, 2010, PG&E Corporation did not redeem or repurchase any shares of common stock outstanding. During the quarter ended June 30, 2010, the Utility did not redeem or repurchase any shares of its various series of preferred stock outstanding.

ITEM 5. OTHER INFORMATION

Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

The Utility's earnings to fixed charges ratio for the six months ended June 30, 2010 was 3.55. The Utility's earnings to combined fixed charges and preferred stock dividends ratio for the six months ended June 30, 2010 was 3.48. The statement of the foregoing ratios, together with the statements of the computation of the foregoing ratios filed as Exhibits 12.1 and 12.2 hereto, are included herein for the purpose of incorporating such information and Exhibits into the Utility's Registration Statement Nos. 33-62488 and 333-149361 relating to various series of the Utility's first preferred stock and its senior notes, respectively.

PG&E Corporation's earnings to fixed charges ratio for the six months ended June 30, 2010 was 3.28. The statement of the foregoing ratio, together with the statement of the computation of the foregoing ratio filed as Exhibit 12.3 hereto, is included herein for the purpose of incorporating such information and Exhibit into PG&E Corporation's Registration Statement No. 333-149360 relating to its senior notes.

ITEM 6. EXHIBITS

4	Ninth Supplemental Indenture dated as of April 1, 2010 relating to the issuance of \$250,000,000 aggregate principal amount of Pacific Gas and Electric Company's Senior Notes due March 1, 2037 (incorporated by reference to Pacific Gas and Electric Company's Current Report on Form 8-K dated April 1, 2010 (File No. 1-2348), Exhibit 4.1)
*10.1	PG&E Corporation 2006 Long-Term Incentive Plan, as amended May 12, 2010
10.2	Credit Agreement dated June 8, 2010, among (1) Pacific Gas and Electric Company, as borrower, (2) Wells Fargo Bank, N.A., as administrative agent and a lender, (3) The Royal Bank of Scotland plc, as syndication agent and a lender, (4) Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, and U.S. Bank, N.A., as documentation agents and lenders, and (5) the following other lenders: Bank of America, N.A., Barclays Bank PLC, BNP Paribas, Deutsche Bank AG, New York Branch, Goldman Sachs Bank USA, Mizuho Corporate Bank (USA), Morgan Stanley Bank, N.A., Royal Bank of Canada, UBS Loan Finance LLC, Citibank, N.A., East West Bank, RBC Bank (USA), JPMorgan Chase Bank, N.A., and The Northern Trust Company.
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**32.1	Certifications of the Chief Executive Officer and the Chief Financial Officer of PG&E Corporation required by Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certifications of the Chief Executive Officer and the Chief Financial Officer of Pacific Gas and Electric Company required by Section 906 of the Sarbanes-Oxley Act of 2002
***101.INS	XBRL Instance Document
***101.SCH	XBRL Taxonomy Extension Schema
***101.CAL	XBRL Taxonomy Extension Calculation
***101.DEF	XBRL Extension Definition
***101.LAB	XBRL Taxonomy Extension Label
***101.PRE	XBRL Taxonomy Extension Presentation
*	Management contract or compensatory agreement.
**	Pursuant to Item 601(b)(32) of SEC Regulation S-K, these exhibits are furnished rather than filed with this report.
***	Pursuant to Rule 406T of SEC Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections. These files are being submitted only by PG&E Corporation and not by its subsidiary, Pacific Gas and Electric Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this Quarterly Report on Form 10-Q to be signed on their behalf by the undersigned thereunto duly authorized.

PG&E CORPORATION

KENT M. HARVEY
Kent M. Harvey
Senior Vice President and Chief Financial Officer
(duly authorized officer and principal financial officer)

PACIFIC GAS AND ELECTRIC COMPANY

SARA A. CHERRY
Sara A. Cherry
Vice President, Finance and Chief Financial Officer
(duly authorized officer and principal financial officer)

Dated: August 4, 2010

EXHIBIT INDEX

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PG&E Corporation
2006 Long-Term Incentive Plan

TABLE OF CONTENTS

	<u>Page</u>
1. Establishment, Purpose and Term of Plan	1
1.1 Establishment	1
1.2 Purpose	1
1.3 Term of Plan	1
2. Definitions and Construction	1
2.1 Definitions	1
2.2 Construction	7
3. Administration	7
3.1 Administration by the Committee	7
3.2 Authority of Officers	8
3.3 Administration with Respect to Insiders	8
3.4 Committee Complying with Section 162(m)	8
3.5 Powers of the Committee	8
3.6 Option or SAR Repricing	9
3.7 Indemnification	10
4. Shares Subject to Plan	10
4.1 Maximum Number of Shares Issuable	10
4.2 Adjustments for Changes in Capital Structure	10
5. Eligibility and Award Limitations	11
5.1 Persons Eligible for Awards	11
5.2 Participation	11
5.3 Incentive Stock Option Limitations	11
5.4 Award Limits	12
6. Terms and Conditions of Options	13
6.1 Exercise Price	13
6.2 Exercisability and Term of Options	13
6.3 Payment of Exercise Price	14
6.4 Effect of Termination of Service	14
6.5 Transferability of Options	15
7. Terms and Conditions of Nonemployee Director Awards	15
7.1 Automatic Grant of Restricted Stock	15
7.2 Annual Election to Receive Nonstatutory Stock Option and Restricted Stock Units	16

TABLE OF CONTENTS
(continued)

	<u>Page</u>
7.3 Grant of Nonstatutory Stock Option	16
7.4 Grant of Restricted Stock Unit	17
7.5 Effect of Termination of Service as a Nonemployee Director	18
7.6 Effect of Change in Control on Nonemployee Director Awards	19
7.7 Right to Decline Nonemployee Director Awards	19
8. Terms and Conditions of Stock Appreciation Rights	19
8.1 Types of SARs Authorized	20
8.2 Exercise Price	20
8.3 Exercisability and Term of SARs	20
8.4 Deemed Exercise of SARs	20
8.5 Effect of Termination of Service	20
8.6 Nontransferability of SARs	20
9. Terms and Conditions of Restricted Stock Awards	21
9.1 Types of Restricted Stock Awards Authorized	21
9.2 Purchase Price	21
9.3 Purchase Period	21
9.4 Vesting and Restrictions on Transfer	21
9.5 Voting Rights, Dividends and Distributions	21
9.6 Effect of Termination of Service	22
9.7 Nontransferability of Restricted Stock Award Rights	22
10. Terms and Conditions of Performance Awards	22
10.1 Types of Performance Awards Authorized	22
10.2 Initial Value of Performance Shares and Performance Units	22
10.3 Establishment of Performance Period, Performance Goals and Performance Award Formula	23
10.4 Measurement of Performance Goals	23
10.5 Settlement of Performance Awards	24
10.6 Voting Rights, Dividend Equivalent Rights and Distributions	24
10.7 Effect of Termination of Service	25
10.8 Nontransferability of Performance Awards	25
11. Terms and Conditions of Restricted Stock Unit Awards	25
11.1 Grant of Restricted Stock Unit Awards	26
11.2 Vesting	26
11.3 Voting Rights, Dividend Equivalent Rights and Distributions	26
11.4 Effect of Termination of Service	27
11.5 Settlement of Restricted Stock Unit Awards	27
11.6 Nontransferability of Restricted Stock Unit Awards	27

TABLE OF CONTENTS
(continued)

	<u>Page</u>
12. Deferred Compensation Awards	27
12.1 Establishment of Deferred Compensation Award Programs	27
12.2 Terms and Conditions of Deferred Compensation Awards	28
13. Other Stock-Based Awards	29
14. Change in Control	29
14.1 Effect of Change in Control on Options and SARs	29
14.2 Effect of Change in Control on Restricted Stock and Other Awards	29
14.3 Nonemployee Director Awards	29
15. Compliance with Securities Law	29
16. Tax Withholding	30
16.1 Tax Withholding in General	30
16.2 Withholding in Shares	30
17. Amendment or Termination of Plan	30
18. Miscellaneous Provisions	31
18.1 Repurchase Rights	31
18.2 Provision of Information	31
18.3 Rights as Employee, Consultant or Director	31
18.4 Rights as a Shareholder	31
18.5 Fractional Shares	31
18.6 Severability	31
18.7 Beneficiary Designation	31
18.8 Unfunded Obligation	32
18.9 Choice of Law	32
18.10 Section 409A of the Code	32

PG&E Corporation
2006 Long-Term Incentive Plan

(As adopted effective January 1, 2006, and
as amended effective on February 15, 2006, December 20, 2006, October 17, 2007, September
17, 2008, January 1, 2009, February 18, 2009, December 16, 2009 and May 12, 2010)

1. **ESTABLISHMENT, PURPOSE AND TERM OF PLAN.**

1.1 **Establishment.** The PG&E Corporation 2006 Long-Term Incentive Plan (the “**Plan**”) is hereby established effective as of January 1, 2006 (the “**Effective Date**”), provided it has been approved by the shareholders of the Company.

1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Participating Company Group and its shareholders by providing an incentive to attract and retain the best qualified personnel to perform services for the Participating Company Group, by motivating such persons to contribute to the growth and profitability of the Participating Company Group, by aligning their interests with interests of the Company’s shareholders, and by rewarding such persons for their services by tying a significant portion of their total compensation package to the success of the Company. The Plan seeks to achieve this purpose by providing for Awards in the form of Options, Stock Appreciation Rights, Restricted Stock Awards, Performance Shares, Performance Units, Restricted Stock Units, Deferred Compensation Awards and other Stock-Based Awards as described below.

1.3 **Term of Plan.** The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Awards granted under the Plan have lapsed. However, all Awards shall be granted, if at all, within ten (10) years from the Effective Date. Moreover, Incentive Stock Options shall not be granted later than ten (10) years from the date of shareholder approval of the Plan.

2. **DEFINITIONS AND CONSTRUCTION.**

2.1 **Definitions.** Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) “**Affiliate**” means (i) an entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) an entity, other than a Subsidiary Corporation, that is controlled by the Company directly, or indirectly through one or more intermediary entities. For this purpose, the term “control” (including the term “controlled by”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the relevant entity, whether through the ownership of voting securities, by contract or otherwise; or shall have such other meaning assigned such term for the purposes of registration on Form S-8 under the Securities Act.

(b) “ **Award** ” means any Option, SAR, Restricted Stock Award, Performance Share, Performance Unit, Restricted Stock Unit or Deferred Compensation Award or other Stock-Based Award granted under the Plan.

(c) “ **Award Agreement** ” means a written agreement between the Company and a Participant setting forth the terms, conditions and restrictions of the Award granted to the Participant.

(d) “ **Board** ” means the Board of Directors of the Company.

(e) “ **Change in Control** ” means, unless otherwise defined by the Participant’s Award Agreement or contract of employment or service, the occurrence of any of the following:

(i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act, but excluding any benefit plan for Employees or any trustee, agent or other fiduciary for any such plan acting in such person’s capacity as such fiduciary), directly or indirectly, becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), of stock of the Company representing twenty percent (20%) or more of the combined voting power of the Company’s then outstanding voting stock; or

(ii) during any two consecutive years, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority of the Board, unless the election, or the nomination for election by the shareholders of the Company, of each new Director was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who were Directors at the beginning of the period; or

(iii) the consummation of any consolidation or merger of the Company other than a merger or consolidation which would result in the voting stock of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting stock of the surviving entity or any parent of such surviving entity) at least seventy percent (70%) of the Combined Voting Power of the Company, such surviving entity or the parent of such surviving entity outstanding immediately after the merger or consolidation; or

(iv) the approval of the Shareholders of the Company of any (1) sale, lease, exchange or other transfer (in one or a series of related transactions) of all or substantially all of the assets of the Company, or (2) any plan or proposal for the liquidation or dissolution of the Company.

For purposes of paragraph (iii), the term “**Combined Voting Power**” shall mean the combined voting power of the Company’s or other relevant entity’s then outstanding voting stock.

(f) “ **Code** ” means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(g) “ **Committee** ” means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by

the Board. If no committee of the Board has been appointed to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

(h) “ **Company** ” means PG&E Corporation, a California corporation, or any successor corporation thereto.

(i) “ **Consultant** ” means a person engaged to provide consulting or advisory services (other than as an Employee or a member of the Board) to a Participating Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on registration on a Form S-8 Registration Statement under the Securities Act.

(j) “ **Deferred Compensation Award** ” means an award of Stock Units granted to a Participant pursuant to Section 12 of the Plan.

(k) “ **Director** ” means a member of the Board.

(l) “ **Disability** ” means the permanent and total disability of the Participant, within the meaning of Section 22(e)(3) of the Code, except as otherwise set forth in the Plan or an Award Agreement.

(m) “ **Dividend Equivalent** ” means a credit, made at the discretion of the Committee or as otherwise provided by the Plan, to the account of a Participant in an amount equal to the cash dividends paid on one share of Stock for each share of Stock represented by an Award held by such Participant.

(n) “ **Employee** ” means any person treated as an employee (including an Officer or a member of the Board who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a member of the Board nor payment of a director’s fee shall be sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual’s employment or termination of employment, as the case may be. For purposes of an individual’s rights, if any, under the Plan as of the time of the Company’s determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination.

(o) “ **Exchange Act** ” means the Securities Exchange Act of 1934, as amended.

(p) “ **Fair Market Value** ” means, as of any date, the value of a share of Stock or other property as determined by the Committee, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

(i) Except as otherwise determined by the Committee, if, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock as quoted on the New York Stock Exchange or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in *The Wall Street Journal* or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Committee, in its discretion.

(ii) Notwithstanding the foregoing, the Committee may, in its discretion, determine the Fair Market Value on the basis of the opening, closing, high, low or average sale price of a share of Stock or the actual sale price of a share of Stock received by a Participant, on such date, the preceding trading day, the next succeeding trading day or an average determined over a period of trading days. The Committee may vary its method of determination of the Fair Market Value as provided in this Section for different purposes under the Plan.

(iii) If, on such date, the Stock is not listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be as determined by the Committee in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.

(q) “ **Incentive Stock Option** ” means an Option intended to be (as set forth in the Award Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(r) “ **Insider** ” means an Officer, a Director or any other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(s) “ **Mandatory Retirement** ” means retirement as a Director at age 70 or at such other age as may be specified in the retirement policy for the Board in effect at the time of a Nonemployee Director’s termination of Service as a Director.

(t) “ **Net-Exercise** ” means a procedure by which the Participant will be issued a number of shares of Stock determined in accordance with the following formula:

$X = Y(A-B)/A$, where

X = the number of shares of Stock to be issued to the Participant upon exercise of the Option;

Y = the total number of shares with respect to which the Participant has elected to exercise the Option;

A = the Fair Market Value of one (1) share of Stock;

B = the exercise price per share (as defined in the Participant’s Award Agreement).

-
- (u) “ **Nonemployee Director** ” means a Director who is not an Employee.
- (v) “ **Nonemployee Director Award** ” means an Award granted to a Nonemployee Director pursuant to Section 7 of the Plan.
- (w) “ **Nonstatutory Stock Option** ” means an Option not intended to be (as set forth in the Award Agreement) an incentive stock option within the meaning of Section 422(b) of the Code.
- (x) “ **Officer** ” means any person designated by the Board as an officer of the Company.
- (y) “ **Option** ” means the right to purchase Stock at a stated price for a specified period of time granted to a Participant pursuant to Section 6 or Section 7 of the Plan. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.
- (z) “ **Option Expiration Date** ” means the date of expiration of the Option’s term as set forth in the Award Agreement.
- (aa) “ **Parent Corporation** ” means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.
- (bb) “ **Participant** ” means any eligible person who has been granted one or more Awards.
- (cc) “ **Participating Company** ” means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.
- (dd) “ **Participating Company Group** ” means, at any point in time, all entities collectively which are then Participating Companies.
- (ee) “ **Performance Award** ” means an Award of Performance Shares or Performance Units.
- (ff) “ **Performance Award Formula** ” means, for any Performance Award, a formula or table established by the Committee pursuant to Section 10.3 of the Plan which provides the basis for computing the value of a Performance Award at one or more threshold levels of attainment of the applicable Performance Goal(s) measured as of the end of the applicable Performance Period.
- (gg) “ **Performance Goal** ” means a performance goal established by the Committee pursuant to Section 10.3 of the Plan.
- (hh) “ **Performance Period** ” means a period established by the Committee pursuant to Section 10.3 of the Plan at the end of which one or more Performance Goals are to be measured.

(ii) “ **Performance Share** ” means a bookkeeping entry representing a right granted to a Participant pursuant to Section 10 of the Plan to receive a payment equal to the value of a Performance Share, as determined by the Committee, based on performance.

(jj) “ **Performance Unit** ” means a bookkeeping entry representing a right granted to a Participant pursuant to Section 10 of the Plan to receive a payment equal to the value of a Performance Unit, as determined by the Committee, based upon performance.

(kk) “ **Restricted Stock Award** ” means an Award of Restricted Stock.

(ll) “ **Restricted Stock Unit** ” or “ **Stock Unit** ” means a bookkeeping entry representing a right granted to a Participant pursuant to Section 11 or Section 12 of the Plan, respectively, to receive a share of Stock on a date determined in accordance with the provisions of Section 11 or Section 12, as applicable, and the Participant’s Award Agreement.

(mm) “ **Restriction Period** ” means the period established in accordance with Section 9.4 of the Plan during which shares subject to a Restricted Stock Award are subject to Vesting Conditions.

(nn) “ **Retirement** ” means termination as an Employee of a Participating Company at age 55 or older, provided that the Participant was an Employee for at least five consecutive years prior to the date of such termination.

(oo) “ **Rule 16b-3** ” means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(pp) “ **SAR** ” or “ **Stock Appreciation Right** ” means a bookkeeping entry representing, for each share of Stock subject to such SAR, a right granted to a Participant pursuant to Section 8 of the Plan to receive payment in any combination of shares of Stock or cash of an amount equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the SAR over the exercise price.

(qq) “ **Section 162(m)** ” means Section 162(m) of the Code.

(rr) “ **Section 409A Change in Control** ” means a “change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets of the corporation,” within the meaning of Section 409A of the Code, as such definition applies to the Company.

(ss) “ **Securities Act** ” means the Securities Act of 1933, as amended.

(tt) “ **Separation from Service** ” means a Participant’s “separation from service,” within the meaning of Section 409A of the Internal Revenue Code.

(uu) “ **Service** ” means a Participant’s employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. A Participant’s Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders such Service or a change in the

Participating Company for which the Participant renders such Service, provided that there is no interruption or termination of the Participant's Service. Furthermore, a Participant's Service shall not be deemed to have terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company. However, if any such leave taken by a Participant exceeds ninety (90) days, then on the one hundred eighty-first (181st) day following the commencement of such leave any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and instead shall be treated thereafter as a Nonstatutory Stock Option, unless the Participant's right to return to Service with the Participating Company Group is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, a leave of absence shall not be treated as Service for purposes of determining vesting under the Participant's Award Agreement. A Participant's Service shall be deemed to have terminated either upon an actual termination of Service or upon the entity for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant's Service has terminated and the effective date of such termination.

(vv) “ **Stock** ” means the common stock of the Company, as adjusted from time to time in accordance with Section 4.2 of the Plan.

(ww) “ **Stock-Based Awards** ” means any award that is valued in whole or in part by reference to, or is otherwise based on, the Stock, including dividends on the Stock, but not limited to those Awards described in Sections 6 through 12 of the Plan.

(xx) “ **Subsidiary Corporation** ” means any present or future “subsidiary corporation” of the Company, as defined in Section 424 (f) of the Code.

(yy) “ **Ten Percent Owner** ” means a Participant who, at the time an Option is granted to the Participant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company (other than an Affiliate) within the meaning of Section 422(b)(6) of the Code.

(zz) “ **Vesting Conditions** ” mean those conditions established in accordance with Section 9.4 or Section 11.2 of the Plan prior to the satisfaction of which shares subject to a Restricted Stock Award or Restricted Stock Unit Award, respectively, remain subject to forfeiture or a repurchase option in favor of the Company upon the Participant's termination of Service.

2.2 Construction. Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

3. **ADMINISTRATION.**

3.1 Administration by the Committee. The Plan shall be administered by the Committee. All questions of interpretation of the Plan or of any Award shall be determined by

the Committee, and such determinations shall be final and binding upon all persons having an interest in the Plan or such Award.

3.2 Authority of Officers. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, determination or election. In addition, to the extent specified in a resolution adopted by the Board, the Chief Executive Officer of the Company shall have the authority to grant Awards to an Employee who is not an Insider and who is receiving a salary below the level which requires approval by the Committee; provided that the terms of such Awards conform to guidelines established by the Committee and provided further that at the time of making such Awards the Chief Executive Officer also is a Director.

3.3 Administration with Respect to Insiders. With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.4 Committee Complying with Section 162(m). While the Company is a “publicly held corporation” within the meaning of Section 162(m), the Board may establish a Committee of “outside directors” within the meaning of Section 162(m) to approve the grant of any Award which might reasonably be anticipated to result in the payment of employee remuneration that would otherwise exceed the limit on employee remuneration deductible for income tax purposes pursuant to Section 162(m).

3.5 Powers of the Committee . In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Committee shall have the full and final power and authority, in its discretion:

(a) to determine the persons to whom, and the time or times at which, Awards shall be granted and the number of shares of Stock or units to be subject to each Award based on the recommendation of the Chief Executive Officer of the Company (except that Awards to the Chief Executive Officer shall be based on the recommendation of the independent members of the Board in compliance with applicable stock exchange rules and Awards to Nonemployee Directors shall be granted automatically pursuant to Section 7 of the Plan);

(b) to determine the type of Award granted and to designate Options as Incentive Stock Options or Nonstatutory Stock Options;

(c) to determine the Fair Market Value of shares of Stock or other property;

(d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares purchased pursuant to any Award, (ii) the method of payment for shares purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the

Performance Award Formula and Performance Goals applicable to any Award and the extent to which such Performance Goals have been attained, (vi) the time of the expiration of any Award, (vii) the effect of the Participant's termination of Service on any of the foregoing, and (viii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;

(e) to determine whether an Award will be settled in shares of Stock, cash, or in any combination thereof;

(f) to approve one or more forms of Award Agreement;

(g) to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares acquired pursuant thereto;

(h) to accelerate, continue, extend or defer the exercisability or vesting of any Award or any shares acquired pursuant thereto, including with respect to the period following a Participant's termination of Service;

(i) without the consent of the affected Participant and notwithstanding the provisions of any Award Agreement to the contrary, to unilaterally substitute at any time a Stock Appreciation Right providing for settlement solely in shares of Stock in place of any outstanding Option, provided that such Stock Appreciation Right covers the same number of shares of Stock and provides for the same exercise price (subject in each case to adjustment in accordance with Section 4.2) as the replaced Option and otherwise provides substantially equivalent terms and conditions as the replaced Option, as determined by the Committee;

(j) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the laws or regulations of or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose citizens may be granted Awards;

(k) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law; and

(l) to delegate to the Chief Executive Officer or the Senior Vice President of Human Resources the authority with respect to ministerial matters regarding the Plan and Awards made under the Plan.

3.6 Option or SAR Repricing. Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the shareholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Board shall not approve a program providing for either (a) the cancellation of outstanding Options or SARs and the grant in substitution therefore of new Options or SARs having a lower exercise price or (b) the amendment of outstanding Options or SARs to reduce the exercise price thereof. This paragraph shall not be construed to apply to

“issuing or assuming a stock option in a transaction to which section 424(a) applies,” within the meaning of Section 424 of the Code.

3.7 Indemnification. In addition to such other rights of indemnification as they may have as members of the Board or the Committee or as officers or employees of the Participating Company Group, members of the Board or the Committee and any officers or employees of the Participating Company Group to whom authority to act for the Board, the Committee or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys’ fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. S H A R E S S U B J E C T T O P L A N .

4.1 Maximum Number of Shares Issuable. Subject to adjustment as provided in Section 4.2 and subject to Section 409A of the Code, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be twelve million (12,000,000) and shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Stock acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company, the shares of Stock allocable to the terminated portion of such Award or such forfeited or repurchased shares of Stock shall again be available for issuance under the Plan. Shares of Stock shall not be deemed to have been issued pursuant to the Plan (a) with respect to any portion of an Award that is settled in cash or (b) to the extent such shares are withheld or reacquired by the Company in satisfaction of tax withholding obligations pursuant to Section 16.2. Upon payment in shares of Stock pursuant to the exercise of an SAR, the number of shares available for issuance under the Plan shall be reduced only by the number of shares actually issued in such payment. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant, or by means of a Net-Exercise, the number of shares available for issuance under the Plan shall be reduced only by the net number of shares for which the Option is exercised.

4.2 Adjustments for Changes in Capital Structure . Subject to any required action by the shareholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the

shareholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate adjustments shall be made in the number and kind of shares subject to the Plan and to any outstanding Awards, in the Award limits set forth in Section 5.4, in the Nonemployee Director Awards to be granted automatically pursuant to Section 7, and in the exercise or purchase price per share under any outstanding Award in order to prevent dilution or enlargement of Participants' rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any fractional share resulting from an adjustment pursuant to this Section 4.2 shall be rounded down to the nearest whole number. The Committee in its sole discretion, may also make such adjustments in the terms of any Award to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate, including modification of Performance Goals, Performance Award Formulas and Performance Periods. The adjustments determined by the Committee pursuant to this Section 4.2 shall be final, binding and conclusive.

5. **ELIGIBILITY AND AWARD LIMITATIONS.**

5.1 **Persons Eligible for Awards.** Awards may be granted only to Employees, Consultants and Directors. For purposes of the foregoing sentence, "Employees," "Consultants" and "Directors" shall include prospective Employees, prospective Consultants and prospective Directors to whom Awards are granted in connection with written offers of an employment or other service relationship with the Participating Company Group; provided, however, that no Stock subject to any such Award shall vest, become exercisable or be issued prior to the date on which such person commences Service. A Nonemployee Director Award may be granted only to a person who, at the time of grant, is a Nonemployee Director.

5.2 **Participation.** Awards other than Nonemployee Director Awards are granted solely at the discretion of the Committee. Eligible persons may be granted more than one Award. However, excepting Nonemployee Director Awards, eligibility in accordance with this Section shall not entitle any person to be granted an Award, or, having been granted an Award, to be granted an additional Award.

5.3 **Incentive Stock Option Limitations.**

(a) **Persons Eligible.** An Incentive Stock Option may be granted only to a person who, on the effective date of grant, is an Employee of the Company, a Parent Corporation or a Subsidiary Corporation (each being an "**ISO-Qualifying Corporation**"). Any person who is not an Employee of an ISO-Qualifying Corporation on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option. An Incentive Stock Option granted to a prospective Employee upon the condition that such person become an Employee of an ISO-Qualifying Corporation shall be deemed granted effective on the date such person commences Service with an ISO-Qualifying Corporation, with an exercise price determined as of such date in accordance with Section 6.1.

(b) **Fair Market Value Limitation.** To the extent that options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by a Participant for the first time during any

calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars (\$100,000), the portion of such options which exceeds such amount shall be treated as Nonstatutory Stock Options. For purposes of this Section, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of stock shall be determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a limitation different from that set forth in this Section, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Upon exercise, shares issued pursuant to each such portion shall be separately identified.

5.4 Award Limits.

(a) **Maximum Number of Shares Issuable Pursuant to Incentive Stock Options.** Subject to adjustment as provided in Section 4.2, the maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to the exercise of Incentive Stock Options shall not exceed twelve million (12,000,000) shares. The maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to all Awards other than Incentive Stock Options shall be the number of shares determined in accordance with Section 4.1, subject to adjustment as provided in Section 4.2 and further subject to the limitation set forth in Section 5.4(b) below.

(b) **Aggregate Limit on Full Value Awards.** Subject to adjustment as provided in Section 4.2, in no event shall more than twelve million (12,000,000) shares in the aggregate be issued under the Plan pursuant to the exercise or settlement of Restricted Stock Awards, Restricted Stock Unit Awards and Performance Awards ("Full Value Awards"). Except with respect to a maximum of five percent (5%) of the shares of Stock authorized in this Section 5.4(b), any Full Value Awards which vest on the basis of the Participant's continued Service shall not provide for vesting which is any more rapid than annual pro rata vesting over a three (3) year period and any Full Value Awards which vest upon the attainment of Performance Goals shall provide for a Performance Period of at least twelve (12) months.

(c) **Section 162(m) Award Limits.** The following limits shall apply to the grant of any Award if, at the time of grant, the Company is a "publicly held corporation" within the meaning of Section 162(m).

(i) **Options and SARs.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted within any fiscal year of the Company one or more Options or Freestanding SARs which in the aggregate are for more than 400,000 shares of Stock reserved for issuance under the Plan.

(ii) **Restricted Stock and Restricted Stock Unit Awards.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted within any fiscal year of the Company one or more Restricted Stock Awards or Restricted Stock Unit Awards, subject to

Vesting Conditions based on the attainment of Performance Goals, for more than 400,000 shares of Stock reserved for issuance under the Plan.

(iii) **Performance Awards.** Subject to adjustment as provided in Section 4.2, no Employee shall be granted (1) one or more awards of Performance Shares which could result in such Employee receiving more than 400,000 shares of Stock reserved for issuance under the Plan for each full fiscal year of the Company contained in the Performance Period for such Award, and (2) one or more awards of Performance Units which could result in such Employee receiving more than five million dollars (\$5 million) for each full fiscal year of the Company contained in the Performance Period for such Award, with such amount to be pro-rated for Performance Periods of less than one full fiscal year.

6. **TERMS AND CONDITIONS OF OPTIONS.**

Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Committee shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Options may incorporate all or any of the terms of the Plan by reference and, except as otherwise set forth in Section 7 with respect to Nonemployee Director Options, shall comply with and be subject to the following terms and conditions:

6.1 Exercise Price . The exercise price for each Option shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option and (b) no Incentive Stock Option granted to a Ten Percent Owner shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.

6.2 Exercisability and Term of Options . Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, and (c) no Option granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service. Subject to the foregoing, unless otherwise specified by the Committee in the grant of an Option, any Option granted hereunder shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

6.3 Payment of Exercise Price.

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or in cash equivalent, (ii) by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant having a Fair Market Value not less than the exercise price, (iii) by delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a “**Cashless Exercise**”), (iv) by delivery of a properly executed notice of exercise electing a Net-Exercise, (v) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (vi) by any combination thereof. The Committee may at any time or from time to time grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) **Limitations on Forms of Consideration.**

(i) **Tender of Stock.** Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company’s stock.

(ii) **Cashless Exercise.** The Company reserves, at any and all times, the right, in the Company’s sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise, including with respect to one or more Participants specified by the Company notwithstanding that such program or procedures may be available to other Participants.

6.4 Effect of Termination of Service.

(a) **Option Exercisability.** Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Committee, an Option shall be exercisable after a Participant’s termination of Service only during the applicable time periods provided in the Award Agreement.

(b) **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, unless the Committee provides otherwise in the Award Agreement, if the exercise of an Option within the applicable time periods is prevented by the provisions of Section 14.1 below, the Option shall remain exercisable until three (3) months (or such longer period of time as determined by the Committee, in its discretion) after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

(c) **Extension if Participant Subject to Section 16(b).** Notwithstanding the foregoing, if a sale within the applicable time periods of shares acquired upon the exercise of the

Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant's termination of Service, or (iii) the Option Expiration Date.

6.5 Transferability of Options. During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant's guardian or legal representative. Prior to the issuance of shares of Stock upon the exercise of an Option, the Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Option, a Nonstatutory Stock Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 Registration Statement under the Securities Act.

7. TERMS AND CONDITIONS OF NONEMPLOYEE DIRECTOR AWARDS.

Nonemployee Director Awards shall be evidenced by Award Agreements in such form as the Board shall from time to time establish. Such Award Agreements may incorporate all or any of the terms of the Plan by reference, shall be automatic and non-discretionary and shall comply with and be subject to the terms and conditions set forth in this Section 7.

For purposes of this Section 7 as amended on December 19, 2009, each year the Board shall approve the grant date for all Nonemployee Director awards to be made under this Section 7 (the "Grant Date"), which shall be the same as the grant date approved each year by the Committee for the annual Plan Awards to be made to Employees in accordance with guidelines approved by the Committee ("Annual Awards"). Solely for purposes of determining the number of shares of Stock covered by Restricted Stock Awards and Restricted Stock Units described in Section 7.1 and Section 7.4, the "Fair Market Value of the Stock on Grant Date" (which may be determined by an average or other method) shall be approved by the Board each year and shall be the same as that used to determine the number of Annual Awards.

7.1 Automatic Grant of Restricted Stock.

(a) **Timing and Amount of Grant.** For each calendar year, each person who is a Nonemployee Director on the Grant Date shall be granted a Restricted Stock Award to purchase a number of shares of Stock determined by dividing forty-five thousand dollars (\$45,000) by the Fair Market Value of the Stock on the Grant Date, and rounding down to the nearest whole number.

(b) **Vesting.** The shares subject to the Restricted Stock Award granted pursuant to Section 7.1(a) shall vest in equal annual installments of twenty percent (20%) on each anniversary of the Grant Date, with one hundred percent (100%) of the shares vested on the fifth anniversary of the Grant Date.

7.2 Annual Election to Receive Nonstatutory Stock Option and Restricted Stock Units. On a date no later than December 31 of each calendar year during the term of the Plan, each person who is then a Nonemployee Director shall deliver to the Board a written election to receive either Nonstatutory Stock Options or Restricted Stock Units, or both, with an aggregate value of \$45,000, on the Grant Date for the following calendar year, provided the person continues to be a Nonemployee Director on the Grant Date. A Nonemployee Director may allocate between Nonstatutory Stock Options and Restricted Stock Units in minimum increments with a value equal to \$5,000, as determined in accordance with Sections 7.3 and 7.4. All awards of Nonstatutory Stock Options and Restricted Stock Units made to Nonemployee Directors shall comply with the provisions of Sections 7.3 and 7.4, respectively. A Nonemployee Director who fails to make a timely election or who first becomes a Nonemployee Director after December 31 but before the Grant Date for the following calendar year shall be awarded Nonstatutory Stock Options and Restricted Stock Units each with a value of \$22,500, as determined in accordance with Sections 7.3 and 7.4, provided the Nonemployee Director continues to be a Nonemployee Director on the Grant Date.

7.3 Grant of Nonstatutory Stock Option.

(a) **Timing and Amount of Grant** . For each calendar year, unless a Nonemployee Director made an election to decline the award of a Nonstatutory Stock Option in accordance with Section 7.7, each person who is a Nonemployee Director on the Grant Date shall receive a grant of a Nonstatutory Stock Option with an aggregate value equal to \$5,000, \$10,000, \$15,000, \$20,000, \$25,000 \$30,000, \$35,000, \$40,000, or \$45,000 as previously elected by the Nonemployee Director (or \$22,500 in the case of a Nonemployee Director who failed to make a timely election or who became a Nonemployee Director before the Grant Date for a particular year but after December 31 of the previous year) (the “**Elected Option Value** ”).

The number of shares subject to the Nonstatutory Stock Option shall be determined by dividing the Elected Option Value by the value of a Nonstatutory Stock Option to purchase a single share of Stock as of the Grant Date. The per share option value shall be calculated in accordance with the Black-Scholes stock option valuation method using the average closing price of Stock during the preceding months of November, December, and January, and reducing the per option value by twenty percent (20%). The resulting number of shares subject to the Nonstatutory Stock Option shall be rounded down to the nearest whole share. No person shall receive more than one grant of Nonstatutory Stock Options pursuant to this Section 7.3(a) during any calendar year.

(b) **Exercise Price and Payment** . The exercise price of each Nonstatutory Stock Option granted pursuant to Section 7.3(a) shall be the Fair Market Value of the Stock on the Grant Date. The payment of the exercise price for the number of shares of Stock being purchased pursuant to the Nonstatutory Stock Option shall be made in accordance with the provisions of Section 6.3.

(c) **Vesting and Exercisability** . The Nonstatutory Stock Option granted in accordance with this Section shall become vested and exercisable as to one third (1/3) of the shares subject to the Nonstatutory Stock Option on the second, third and fourth anniversaries of the Grant Date, respectively. The Nonstatutory Stock Option shall terminate ten (10) years after the Grant Date, unless earlier terminated in accordance with its provisions.

7.4 Grant of Restricted Stock Unit.

(a) **Timing and Amount of Grant** . For each calendar year, unless a Nonemployee Director made an election to decline the award of a Restricted Stock Unit in accordance with Section 7.7, each person who is a Nonemployee Director on the Grant Date shall receive a grant of a Restricted Stock Unit with an aggregate value equal to \$5,000, \$10,000, \$15,000, \$20,000, \$25,000, \$30,000, \$35,000, \$40,000, or \$45,000, as previously elected by the Nonemployee Director (or \$22,500 in the case of a Nonemployee Director who failed to make a timely election or who became a Nonemployee Director after December 31 but before the Grant Date) (the “**Elected Stock Unit Value**”). The number of Restricted Stock Units shall be determined by dividing the Elected Stock Unit Value by the Fair Market Value of the Stock on the Grant Date (including fractions computed to three decimal places). The Restricted Stock Units awarded to a Nonemployee Director shall be credited to the director’s Restricted Stock Unit account. Each Restricted Stock Unit awarded to a Nonemployee Director in accordance with this Section 7.4(a) shall be deemed to be equal to one (1) (or fraction thereof) share of Stock on the Grant Date, and shall thereafter fluctuate in value in accordance with the Fair Market Value of the Stock. No person shall receive more than one grant of Restricted Stock Units pursuant to this Section 7.4(a) during any calendar year.

(b) **Dividend Rights** . Each Nonemployee Director’s Restricted Stock Unit account shall be credited quarterly on each dividend payment date with additional shares of Restricted Stock Units (including fractions computed to three decimal places) determined by dividing (1) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Restricted Stock Units previously credited to the account by (2) the Fair Market Value per share of Stock on such date. Such additional Restricted Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time as the Restricted Stock Units originally subject to the Restricted Stock Unit Award.

(c) **Settlement of Restricted Stock Units** . Restricted Stock Units credited to a Nonemployee Director’s Restricted Stock Unit account shall be settled by the issuance of an equal number of shares of Stock, rounded down to the nearest whole share, upon the earliest of (i) the Nonemployee Director’s Separation from Service due to Mandatory Retirement, (ii) the Nonemployee Director’s Separation from Service after five years of continuous service on the Board (“Director Retirement”), (iii) the Nonemployee Director’s death, (iv) the Nonemployee Director’s Disability (within the meaning of Section 409A of the Code), (v) a Change in Control that also constitutes a Section 409A Change in Control and (vi) the Nonemployee Director’s Separation from Service following a Change in Control. In the event of a distribution pursuant to Section 7.4(c)(iii) or 7.4(c)(iv), the Nonemployee Director shall receive the Stock in a lump sum distribution at the time of the applicable distribution event. In the case of Sections 7.4(c)(i), 7.4(c)(ii), 7.4(c)(v) and 7.4(c)(vi), the Nonemployee Director shall receive the Stock in a lump sum distribution in January of the year following the year in which the applicable distribution event occurs; provided, however, that the Nonemployee Director may elect, no later than December 31 of the calendar year prior the date of grant of the Restricted Stock Units (or such later time permitted by Section 409A), (1) to receive a series of ten or less approximately equal annual installments commencing no later than January of the year following the year in which the applicable distribution event occurred (such election to apply to all such distribution events)

or (2) to instead receive a lump sum at the time that the applicable distribution event occurs (such election to apply to all such distribution events).

7.5 Effect of Termination of Service as a Nonemployee Director.

(a) **Status of Award** . Subject to earlier termination of the Nonemployee Director Award as otherwise provided herein, the status of a Nonemployee Director Award shall be determined as follows:

(i) **Death or Disability**. If the Nonemployee Director's Service terminates due to death or Disability (1) all shares subject to the Restricted Stock Award shall become fully vested, and the Participant (or the Participant's legal representative or other person who acquired the rights to the Restricted Stock by reason of the Participant's death) shall have the right to resell or transfer such shares at any time; and (2) all Nonstatutory Stock Options held by the Participant shall become fully vested and exercisable, and the Participant (or the Participant's legal representative or other person who acquired the rights to the Nonstatutory Stock Option by reason of the Participant's death) shall have the right to exercise the Nonstatutory Stock Options until the earlier of (a) the date that is twelve (12) months after the date on which the Participant's Service terminated, or (b) the Option Expiration Date. If the Nonemployee Director becomes "disabled," within the meaning of Section 409A of the Code or in the event of the Nonemployee Director's death, all Restricted Stock Units credited to the Nonemployee Director's account shall immediately vest and become payable, in accordance with Section 7.4(c), to the Participant (or the Participant's legal representative or other person who acquired the rights to the Restricted Stock Units by reason of the Participant's death) in the form of a number of shares of Stock equal to the number of Restricted Stock Units credited to the Restricted Stock Unit account, rounded down to the nearest whole share.

(ii) **Mandatory Retirement** . If the Participant's Service terminates because of the Mandatory Retirement of the Participant (1) all shares subject to the Restricted Stock Award shall become fully vested, and the Participant shall have the right to resell or transfer such shares at any time; and (2) all Nonstatutory Stock Options held by the Participant shall become fully vested and exercisable and the Participant shall have the right to exercise the Nonstatutory Stock Options until the earlier of (a) the date that is five (5) years after the date on which the Participant's Service terminated, or (b) the Option Expiration Date. If the Nonemployee Director Separates from Service due to Mandatory Retirement, all Restricted Stock Units credited to the Nonemployee Director's account shall immediately vest and become payable to the Participant in accordance with Section 7.4(c) above.

(iii) **Other Termination of Service**. If the Participant's Service terminates for any reason other than those enumerated in Sections 7.5(a)(i) and 7.5(a)(ii), (1) any unvested shares of Restricted Stock shall be forfeited to the Company and from and after the date of such termination, the Participant shall cease to be a shareholder with respect to such forfeited shares and shall have no dividend, voting or other rights with respect thereto and (2) the unvested portion of any Nonstatutory Stock Option shall terminate, and any portion of the Nonstatutory Stock Option exercisable by the Participant on the date on which the Participant's Service terminated may be exercised until the earlier of (a) the date that is three (3) months after the date on which the Participant's Service terminated, or (b) the Option Expiration Date. If the

Nonemployee Director Separates from Service prior to the occurrence of any of the distribution events set forth in Section 7.4(c), all Restricted Stock Units credited to the Participant's account shall be forfeited on the date of such Separation from Service; provided, however, that if the Nonemployee Director Separates from Service due to a pending Disability determination such forfeiture shall not occur until a finding that such Disability has not occurred.

(iv) Notwithstanding the provisions of Section 7.5(i) through 7.5(iii) above, the Board, in its sole discretion, may establish different terms and conditions pertaining to Nonemployee Director Awards.

(b) **Extension if Exercise Prevented by Law** . Notwithstanding the foregoing, if the exercise of a Nonstatutory Stock Option within the applicable time periods set forth in Section 7.5(a) is prevented by the provisions of Section 14.1 below, the Nonstatutory Stock Option shall remain exercisable until three (3) months after the date the Participant is notified by the Company that the Nonstatutory Stock Option is exercisable, but in any event no later than the Option Expiration Date.

(c) **Extension if Participant Subject to Section 16(b)** . Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 7.5(a) of shares acquired upon the exercise of the Nonstatutory Stock Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Nonstatutory Stock Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant's termination of Service, or (iii) the Option Expiration Date.

7.6 Effect of Change in Control on Nonemployee Director Awards. Upon the occurrence of a Change in Control, (i) the vesting of all shares of Restricted Stock granted pursuant to Section 7.1(a) shall be accelerated so that all such shares become fully vested, (ii) the vesting of Nonstatutory Stock Options granted pursuant to Section 7.3(a) shall be accelerated and such Nonstatutory Stock Options shall remain fully exercisable until the Option Expiration Date, and (iii) all Restricted Stock Units shall immediately vest and be settled in accordance with Section 7.4(c).

7.7 Right to Decline Nonemployee Director Awards. Notwithstanding the foregoing, any person may elect not to receive a Nonemployee Director Award by delivering written notice of such election to the Board no later than the day prior to the date such Nonemployee Director Award would otherwise be granted. A person so declining a Nonemployee Director Award shall receive no payment or other consideration in lieu of such declined Nonemployee Director Award. A person who has declined a Nonemployee Director Award may revoke such election by delivering written notice of such revocation to the Board no later than the day prior to the date such Nonemployee Director Award would be granted.

8. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS.

Stock Appreciation Rights shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee shall from

time to time establish. No SAR or purported SAR shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing SARs may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

8.1 Types of SARs Authorized. SARs may be granted in tandem with all or any portion of a related Option (a “ **Tandem SAR** ”) or may be granted independently of any Option (a “ **Freestanding SAR** ”). A Tandem SAR may be granted either concurrently with the grant of the related Option or at any time thereafter prior to the complete exercise, termination, expiration or cancellation of such related Option.

8.2 Exercise Price. The exercise price for each SAR shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share subject to a Tandem SAR shall be the exercise price per share under the related Option and (b) the exercise price per share subject to a Freestanding SAR shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the SAR.

8.3 Exercisability and Term of SARs.

(a) **Tandem SARs.** Tandem SARs shall be exercisable only at the time and to the extent, and only to the extent, that the related Option is exercisable, subject to such provisions as the Committee may specify where the Tandem SAR is granted with respect to less than the full number of shares of Stock subject to the related Option.

(b) **Freestanding SARs.** Freestanding SARs shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such SAR; provided, however, that no Freestanding SAR shall be exercisable after the expiration of ten (10) years after the effective date of grant of such SAR.

8.4 Deemed Exercise of SARs. If, on the date on which an SAR would otherwise terminate or expire, the SAR by its terms remains exercisable immediately prior to such termination or expiration and, if so exercised, would result in a payment to the holder of such SAR, then any portion of such SAR which has not previously been exercised shall automatically be deemed to be exercised as of such date with respect to such portion.

8.5 Effect of Termination of Service. Subject to earlier termination of the SAR as otherwise provided herein and unless otherwise provided by the Committee in the grant of an SAR and set forth in the Award Agreement, an SAR shall be exercisable after a Participant's termination of Service only as provided in the Award Agreement.

8.6 Nontransferability of SARs. During the lifetime of the Participant, an SAR shall be exercisable only by the Participant or the Participant's guardian or legal representative. Prior to the exercise of an SAR, the SAR shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution.

9. **TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS.**

Restricted Stock Awards shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. No Restricted Stock Award or purported Restricted Stock Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

9.1 Types of Restricted Stock Awards Authorized. Restricted Stock Awards may or may not require the payment of cash compensation for the stock. Restricted Stock Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If either the grant of a Restricted Stock Award or the lapsing of the Restriction Period is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 10.3 through 10.5(a).

9.2 Purchase Price. The purchase price, if any, for shares of Stock issuable under each Restricted Stock Award and the means of payment shall be established by the Committee in its discretion.

9.3 Purchase Period. A Restricted Stock Award requiring the payment of cash consideration shall be exercisable within a period established by the Committee; provided, however, that no Restricted Stock Award granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service.

9.4 Vesting and Restrictions on Transfer. Shares issued pursuant to any Restricted Stock Award may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. During any Restriction Period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than as provided in the Award Agreement or as provided in Section 9.7. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

9.5 Voting Rights, Dividends and Distributions. Except as provided in this Section, Section 9.4 and any Award Agreement, during the Restriction Period applicable to shares subject to a Restricted Stock Award, the Participant shall have all of the rights of a

shareholder of the Company holding shares of Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares. However, in the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant is entitled by reason of the Participant's Restricted Stock Award shall be immediately subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

9.6 Effect of Termination of Service. Unless otherwise provided by the Committee in the grant of a Restricted Stock Award and set forth in the Award Agreement, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to a Restricted Stock Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service in exchange for the payment of the purchase price, if any, paid by the Participant. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company.

9.7 Nontransferability of Restricted Stock Award Rights. Prior to the issuance of shares of Stock pursuant to a Restricted Stock Award, rights to acquire such shares shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or the laws of descent and distribution. All rights with respect to a Restricted Stock Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

10. **TERMS AND CONDITIONS OF PERFORMANCE AWARDS.**

Performance Awards shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No Performance Award or purported Performance Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Performance Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

10.1 Types of Performance Awards Authorized. Performance Awards may be in the form of either Performance Shares or Performance Units. Each Award Agreement evidencing a Performance Award shall specify the number of Performance Shares or Performance Units subject thereto, the Performance Award Formula, the Performance Goal(s) and Performance Period applicable to the Award, and the other terms, conditions and restrictions of the Award.

10.2 Initial Value of Performance Shares and Performance Units. Unless otherwise provided by the Committee in granting a Performance Award, each Performance Share shall have an initial value equal to the Fair Market Value of one (1) share of Stock, subject to adjustment as provided in Section 4.2, on the effective date of grant of the Performance Share.

Each Performance Unit shall have an initial value determined by the Committee. The final value payable to the Participant in settlement of a Performance Award determined on the basis of the applicable Performance Award Formula will depend on the extent to which Performance Goals established by the Committee are attained within the applicable Performance Period established by the Committee.

10.3 Establishment of Performance Period, Performance Goals and Performance Award Formula. In granting each Performance Award, the Committee shall establish in writing the applicable Performance Period, Performance Award Formula and one or more Performance Goals which, when measured at the end of the Performance Period, shall determine on the basis of the Performance Award Formula the final value of the Performance Award to be paid to the Participant. To the extent compliance with the requirements under Section 162(m) with respect to “performance-based compensation” is desired, the Committee shall establish the Performance Goal(s) and Performance Award Formula applicable to each Performance Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period or (b) the date on which 25% of the Performance Period has elapsed, and, in any event, at a time when the outcome of the Performance Goals remains substantially uncertain. Once established, the Performance Goals and Performance Award Formula shall not be changed during the Performance Period. The Company shall notify each Participant granted a Performance Award of the terms of such Award, including the Performance Period, Performance Goal(s) and Performance Award Formula.

10.4 Measurement of Performance Goals. Performance Goals shall be established by the Committee on the basis of targets to be attained (“ **Performance Targets** ”) with respect to one or more measures of business or financial performance (each, a “ **Performance Measure** ”), subject to the following:

(a) **Performance Measures.** Performance Measures shall be calculated with respect to the Company and/or each Subsidiary Corporation and/or such division or other business unit as may be selected by the Committee. Performance Measures may be based upon one or more of the following objectively defined and non-discretionary business criteria and any other objectively verifiable and non-discretionary adjustments permitted and pre-established by the Committee in accordance with Section 162(m), as determined by the Committee: (i) sales revenue; (ii) gross margin; (iii) operating margin; (iv) operating income; (v) pre-tax profit; (vi) earnings before interest, taxes and depreciation and amortization (EBITDA)/adjusted EBITDA; (vii) net income; (viii) expenses; (ix) the market price of the Stock; (x) earnings per share; (xi) return on shareholder equity or assets; (xii) return on capital; (xiii) return on net assets; (xiv) economic profit or economic value added (EVA); (xv) market share; (xvi) customer satisfaction; (xvii) safety; (xviii) total shareholder return; (xix) earnings; (xx) cash flow; (xxi) revenue; (xxii) profits before interest and taxes; (xxiii) profit/loss; (xxiv) profit margin; (xxv) working capital; (xxvi) price/earnings ratio; (xxvii) debt or debt-to-equity; (xxviii) accounts receivable; (xxix) write-offs; (xxx) cash; (xxxi) assets; (xxxii) liquidity; (xxxiii) earnings from operations; (xxxiv) operational reliability; (xxxv) environmental performance; (xxxvi) funds from operations; (xxxvii) adjusted revenues; (xxxviii) free cash flow; or (xxxix) core earnings.

(b) **Performance Targets.** Performance Targets may include a minimum, maximum, target level and intermediate levels of performance, with the final value of a

Performance Award determined under the applicable Performance Award Formula by the level attained during the applicable Performance Period. A Performance Target may be stated as an absolute value or as a value determined relative to a standard selected by the Committee.

10.5 Settlement of Performance Awards.

(a) **Determination of Final Value.** As soon as practicable, but no later than the 15th day of the third month following the completion of the Performance Period applicable to a Performance Award, the Committee shall certify in writing the extent to which the applicable Performance Goals have been attained and the resulting final value of the Award earned by the Participant and to be paid upon its settlement in accordance with the applicable Performance Award Formula.

(b) **Discretionary Adjustment of Award Formula.** In its discretion, the Committee may, either at the time it grants a Performance Award or at any time thereafter, provide for the positive or negative adjustment of the Performance Award Formula applicable to a Performance Award that is not intended to constitute “qualified performance based compensation” to a “covered employee” within the meaning of Section 162(m) (a “**Covered Employee**”) to reflect such Participant’s individual performance in his or her position with the Company or such other factors as the Committee may determine. With respect to a Performance Award intended to constitute qualified performance-based compensation to a Covered Employee, the Committee shall have the discretion to reduce some or all of the value of the Performance Award that would otherwise be paid to the Covered Employee upon its settlement notwithstanding the attainment of any Performance Goal and the resulting value of the Performance Award determined in accordance with the Performance Award Formula.

(c) **Payment in Settlement of Performance Awards.** As soon as practicable following the Committee’s determination and certification in accordance with Sections 10.5(a) and (b) but, in any case, no later than the 15th day of the third month following completion of the Performance Period applicable to a Performance Award, payment shall be made to each eligible Participant (or such Participant’s legal representative or other person who acquired the right to receive such payment by reason of the Participant’s death) of the final value of the Participant’s Performance Award. Payment of such amount shall be made in cash, shares of Stock, or a combination thereof as determined by the Committee.

10.6 Voting Rights, Dividend Equivalent Rights and Distributions. Participants shall have no voting rights with respect to shares of Stock represented by Performance Share Awards until the date of the issuance of such shares, if any (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Performance Share Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to the date on which the Performance Shares are settled or forfeited. Such Dividend Equivalents, if any, shall be credited to the Participant in the form of additional whole Performance Shares as of the date of payment of such cash dividends on Stock. The number of additional Performance Shares (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock

represented by the Performance Shares previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Dividend Equivalents may be paid currently or may be accumulated and paid to the extent that Performance Shares become nonforfeitable, as determined by the Committee in accordance with Section 409A of the Code. Settlement of Dividend Equivalents may be made in cash, shares of Stock, or a combination thereof as determined by the Committee, and may be paid on the same basis as settlement of the related Performance Share as provided in Section 10.5. Dividend Equivalents shall not be paid with respect to Performance Units. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, appropriate adjustments shall be made in the Participant's Performance Share Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Performance Share Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Performance Goals as are applicable to the Award.

10.7 Effect of Termination of Service. Unless otherwise provided by the Committee in the grant of a Performance Award and set forth in the Award Agreement, the effect of a Participant's termination of Service on the Performance Award shall be as follows:

(a) **Death or Disability.** If the Participant's Service terminates because of the death or Disability of the Participant before the completion of the Performance Period applicable to the Performance Award, the final value of the Participant's Performance Award shall be determined by the extent to which the applicable Performance Goals have been attained with respect to the entire Performance Period and shall be prorated based on the number of months of the Participant's Service during the Performance Period. Payment shall be made following the end of the Performance Period in any manner permitted by Section 10.5.

(b) **Other Termination of Service.** If the Participant's Service terminates for any reason except death or Disability before the completion of the Performance Period applicable to the Performance Award, such Award shall be forfeited in its entirety; provided, however, that in the event of an involuntary termination of the Participant's Service, the Committee, in its sole discretion, may waive the automatic forfeiture of all or any portion of any such Award.

10.8 Nontransferability of Performance Awards. Prior to settlement in accordance with the provisions of the Plan, no Performance Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Performance Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

11. TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARDS.

Restricted Stock Unit Awards shall be evidenced by Award Agreements

specifying the number of Restricted Stock Units subject to the Award, in such form as the Committee shall from time to time establish. No Restricted Stock Unit Award or purported Restricted Stock Unit Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock Units may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

11.1 Grant of Restricted Stock Unit Awards. Restricted Stock Unit Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If either the grant of a Restricted Stock Unit Award or the Vesting Conditions with respect to such Award is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 10.3 through 10.5(a).

11.2 Vesting. Restricted Stock Units may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award.

11.3 Voting Rights, Dividend Equivalent Rights and Distributions. Participants shall have no voting rights with respect to shares of Stock represented by Restricted Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Restricted Stock Unit Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to the date on which Restricted Stock Units held by such Participant are settled. Such Dividend Equivalents, if any, shall be paid by crediting the Participant with additional whole Restricted Stock Units as of the date of payment of such cash dividends on Stock. The number of additional Restricted Stock Units (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Restricted Stock Units previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Such additional Restricted Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time as the Restricted Stock Units originally subject to the Restricted Stock Unit Award, provided that Dividend Equivalents may be settled in cash, shares of Stock, or a combination thereof as determined by the Committee. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, appropriate adjustments shall be made in the Participant's Restricted Stock Unit Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Vesting Conditions as are applicable to the Award.

11.4 Effect of Termination of Service. Unless otherwise provided by the Committee in the grant of a Restricted Stock Unit Award and set forth in the Award Agreement, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then the Participant shall forfeit to the Company any Restricted Stock Units pursuant to the Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service.

11.5 Settlement of Restricted Stock Unit Awards . The Company shall issue to a Participant on the date on which Restricted Stock Units subject to the Participant's Restricted Stock Unit Award vest or on such other date determined by the Committee, in its discretion, and set forth in the Award Agreement one (1) share of Stock (and/or any other new, substituted or additional securities or other property pursuant to an adjustment described in Section 11.3) for each Restricted Stock Unit then becoming vested or otherwise to be settled on such date, subject to the withholding of applicable taxes. Notwithstanding the foregoing, if permitted by the Committee and set forth in the Award Agreement, the Participant may elect in accordance with terms specified in the Award Agreement to defer receipt of all or any portion of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section.

11.6 Nontransferability of Restricted Stock Unit Awards. Prior to the issuance of shares of Stock in settlement of a Restricted Stock Unit Award, the Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Restricted Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

12. DEFERRED COMPENSATION AWARDS.

12.1 Establishment of Deferred Compensation Award Programs. This Section 12 shall not be effective unless and until the Committee determines to establish a program pursuant to this Section. The Committee, in its discretion and upon such terms and conditions as it may determine, may establish one or more programs pursuant to the Plan under which:

(a) Participants designated by the Committee who are Insiders or otherwise among a select group of highly compensated Employees may irrevocably elect, prior to a date specified by the Committee, to reduce such Participant's compensation otherwise payable in cash (subject to any minimum or maximum reductions imposed by the Committee) and to be granted automatically at such time or times as specified by the Committee one or more Awards of Stock Units with respect to such numbers of shares of Stock as determined in accordance with the rules of the program established by the Committee and having such other terms and conditions as established by the Committee.

(b) Participants designated by the Committee who are Insiders or otherwise among a select group of highly compensated Employees may irrevocably elect, prior to a date specified by the Committee, to be granted automatically an Award of Stock Units with respect to such number of shares of Stock and upon such other terms and conditions as established by the

Committee in lieu of cash or shares of Stock otherwise issuable to such Participant upon the settlement of a Performance Award or Performance Unit.

12.2 Terms and Conditions of Deferred Compensation Awards. Deferred Compensation Awards granted pursuant to this Section 12 shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No such Deferred Compensation Award or purported Deferred Compensation Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Deferred Compensation Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

(a) ***Vesting Conditions*** . Deferred Compensation Awards shall not be subject to any vesting conditions.

(b) ***Terms and Conditions of Stock Units*** .

(i) **Voting Rights, Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, a Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to the date on which Stock Units held by such Participant are settled. Such Dividend Equivalents shall be paid by crediting the Participant with additional whole and/or fractional Stock Units as of the date of payment of such cash dividends on Stock. The method of determining the number of additional Stock Units to be so credited shall be specified by the Committee and set forth in the Award Agreement. Such additional Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time as the Stock Units originally subject to the Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.2, appropriate adjustments shall be made in the Participant's Stock Unit Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award.

(ii) **Settlement of Stock Unit Awards.** A Participant electing to receive an Award of Stock Units pursuant to this Section 12, shall specify at the time of such election a settlement date with respect to such Award in accordance with rules established by the Committee. The Company shall issue to the Participant upon the earlier of the settlement date elected by the Participant or the date of the Participant's Separation from Service, a number of whole shares of Stock equal to the number of whole Stock Units subject to the Stock Unit Award. Such shares of Stock shall be fully vested, and the Participant shall not be required to pay any additional consideration (other than applicable tax withholding) to acquire such shares. Any fractional Stock Unit subject to the Stock Unit Award shall be settled by the Company by payment in cash of an amount equal to the Fair Market Value as of the payment date of such fractional share.

(iii) **Nontransferability of Stock Unit Awards.** Prior to their settlement in accordance with the provision of the Plan, no Stock Unit Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

13. **OTHER STOCK-BASED AWARDS.**

In addition to the Awards set forth in Sections 6 through 12 above, the Committee, in its sole discretion, may carry out the purpose of this Plan by awarding Stock-Based Awards as it determines to be in the best interests of the Company and subject to such other terms and conditions as it deems necessary and appropriate.

14. **CHANGE IN CONTROL.**

14.1 **Effect of Change in Control on Options and SARs.** In the event of a Change in Control, the surviving, continuing, successor, or purchasing corporation or other business entity or parent thereof, as the case may be (the "Acquiror"), may, without the consent of any Participant, either assume or continue the Company's rights and obligations under outstanding Options or SARs or substitute for outstanding Options or SARs substantially equivalent options or SARs covering the Acquiror's stock. Any Options or SARs which are neither assumed or continued by the Acquiror in connection with the Change in Control nor exercised as of the Change in Control shall, contingent on the Change in Control, become fully vested and exercisable immediately prior to the Change in Control. Options and SARs which are assumed or continued in connection with a Change in Control shall be subject to such additional accelerated vesting and/or exercisability in connection with the Participant's subsequent termination of Service as the Board may determine.

14.2 **Effect of Change in Control on Other Awards.** In the event of a Change in Control, the Acquiror may, without the consent of any Participant, either assume or continue the Company's rights and obligations under outstanding Awards other than Options or SARs or substitute for such Awards substantially equivalent Awards covering the Acquiror's stock. Any such Awards which are neither assumed or continued by the Acquiror in connection with the Change in Control shall, contingent on the Change in Control, become fully vested. Awards which are assumed or continued in connection with a Change in Control shall be subject to such additional accelerated vesting or lapse of restrictions in connection with the Participant's subsequent termination of Service as the Board may determine.

14.3 **Nonemployee Director Awards.** Notwithstanding the foregoing, Nonemployee Director Awards shall be subject to the terms of Section 7, and not this Section 14.

15. **COMPLIANCE WITH SECURITIES LAW.**

The grant of Awards and the issuance of shares of Stock pursuant to any Award shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system

upon which the Stock may then be listed. In addition, no Award may be exercised or shares issued pursuant to an Award unless (a) a registration statement under the Securities Act shall at the time of such exercise or issuance be in effect with respect to the shares issuable pursuant to the Award or (b) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to issuance of any Stock, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

16. **TAX WITHHOLDING.**

16.1 **Tax Withholding in General.** The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise or Net Exercise of an Option, to make adequate provision for, the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to an Award or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock, to release shares of Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

16.2 **Withholding in Shares.** The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of the Participating Company Group. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates.

17. **AMENDMENT OR TERMINATION OF PLAN.**

The Board or the Committee may amend, suspend or terminate the Plan at any time. However, without the approval of the Company's shareholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.2), (b) no change in the class of persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company's shareholders under any applicable law, regulation or rule. Notwithstanding the foregoing, only the Board may amend Section 7. No amendment, suspension or termination of the Plan shall affect any then outstanding Award unless expressly provided by the Board or the Committee. In any event, no amendment, suspension or termination of the Plan may adversely affect any then outstanding Award without the consent of the Participant unless necessary to comply with any applicable law, regulation or rule.

18. **MISCELLANEOUS PROVISIONS.**

18.1 Repurchase Rights . Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Committee in its discretion at the time the Award is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

18.2 Provision of Information. Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common shareholders.

18.3 Rights as Employee, Consultant or Director. No person, even though eligible pursuant to Section 5, shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan shall confer on any Participant a right to remain an Employee, Consultant or Director or interfere with or limit in any way any right of a Participating Company to terminate the Participant's Service at any time. To the extent that an Employee of a Participating Company other than the Company receives an Award under the Plan, that Award shall in no event be understood or interpreted to mean that the Company is the Employee's employer or that the Employee has an employment relationship with the Company.

18.4 Rights as a Shareholder. A Participant shall have no rights as a shareholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.2 or another provision of the Plan.

18.5 Fractional Shares. The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

18.6 Severability . If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan shall not in any way be affected or impaired thereby.

18.7 Beneficiary Designation. Subject to local laws and procedures, each Participant may file with the Company a written designation of a beneficiary who is to receive any benefit under the Plan to which the Participant is entitled in the event of such Participant's death before he or she receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only

when filed by the Participant in writing with the Company during the Participant's lifetime. If a married Participant designates a beneficiary other than the Participant's spouse, the effectiveness of such designation may be subject to the consent of the Participant's spouse. If a Participant dies without an effective designation of a beneficiary who is living at the time of the Participant's death, the Company will pay any remaining unpaid benefits to the Participant's legal representative.

18.8 Unfunded Obligation. Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Committee or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of any Participating Company. The Participants shall have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan. Each Participating Company shall be responsible for making benefit payments pursuant to the Plan on behalf of its Participants or for reimbursing the Company for the cost of such payments, as determined by the Company in its sole discretion. In the event the respective Participating Company fails to make such payment or reimbursement, a Participant's (or other individual's) sole recourse shall be against the respective Participating Company, and not against the Company. A Participant's acceptance of an Award pursuant to the Plan shall constitute agreement with this provision.

18.9 Choice of Law. Except to the extent governed by applicable federal law, the validity, interpretation, construction and performance of the Plan and each Award Agreement shall be governed by the laws of the State of California, without regard to its conflict of law rules.

18.10 Section 409A of the Code. Notwithstanding anything to the contrary in the Plan, to the extent any Award payable in connection with a Participant's Separation from Service constitutes deferred compensation subject to (and not exempt from) Section 409A of the Code and (ii) the Participant is deemed at the time of such separation to be a "specified employee" under Section 409A of the Code and the Treasury regulations thereunder, then payment shall not be made or commence until the earlier of (i) six (6)-months after such Separation from Service or (ii) the date of the Participant's death following such Separation from Service; provided, however, that such delay shall only be effected to the extent required to avoid adverse tax treatment to the Participant, including (without limitation) the additional twenty percent (20%) tax for which the Participant would otherwise be liable under Section 409A(a)(1)(B) of the Code in the absence of such delay. Upon the expiration of the applicable delay period, any payment which would have otherwise been paid during that period (whether in a single sum or in installments) in the absence of this paragraph shall be paid to the Participant or the Participant's beneficiary in one lump sum on the first business day immediately following such delay.

TABLE OF CONTENTS

PLAN HISTORY AND NOTES TO COMPANY

December 15, 2004	Board adopts Plan with a reserve of 12 million shares.
April 20, 2005	Shareholders approve Plan.
January 1, 2006	Plan Effective Date
February 15, 2006	Change in control provisions are amended
December 20, 2006	Board amends Section 7 containing the terms for automatic awards for Non-Employee Directors, effective January 1, 2007
October 17, 2007	Board amends Section 7 as follows: Define “Grant Date” for a particular calendar year as the first business day in March of that calendar year. Previously, the grant date for awards in 2006 and 2007 was the first business day in January of that particular calendar year. This amendment becomes effective starting with grants for 2008. Amend the basis for calculating the per share value of stock option awards, so it is based on the average closing price of Stock during the months of November, December, and January preceding the grant. Previously, the per share value of stock options awards for grants in 2006 and 2007 was based on the average closing price of Stock during the preceding month of November. This amendment becomes effective starting with grants for 2008. Clarify the language for settling restricted stock awards upon a Nonemployee Director’s retirement from the Board, to indicate that shares credited to a Nonemployee Director’s Restricted Stock Unit account may be settled after a Nonemployee Director ceases to be a member of the Board of Directors following five years of service on the Board.
September 17, 2008	Board amends Section 7 containing the terms for automatic awards for Nonemployee Directors, effective January 1, 2009, to increase the total value of annual equity awards to Nonemployee Directors from \$80,000 to \$90,000. Of this amount, \$45,000 of equity awards shall be Restricted Stock, and the remaining \$45,000 shall be a mixture of Options and Restricted Stock Units, consistent with the Plan and with each Nonemployee Director’s election.
Effective January 1, 2009	Plan is amended to comply with the final regulations under Section 409A of the Code

TABLE OF CONTENTS
(continued)

February 18, 2009	Plan is amended to delay grant and pricing of 2009 grants for non-employee directors, to be consistent with 2009 grants to employees.
December 16, 2009	Plan is amended to (1) establish March 10, 2010 as the date of grant of 2010 Plan awards for non-employee directors and calculate the number of shares of restricted stock and restricted stock units (RSUs) to be awarded based upon the average closing price of PG&E Corporation common stock over the five trading days on March 4 through March 10, 2010, and (2) beginning in March 2011, establish that the date of grant of Plan awards for non-employee directors and the price of PG&E Corporation common stock to be used to calculate the number of shares of restricted stock and RSUs to be awarded to non-employee directors be the same as the date of grant and stock price used for the annual LTIP awards for employees.
May 12, 2010	Plan is amended (following approval from the PG&E Corporation Board of Directors and shareholders) to obtain reapproval of the material terms of performance goals, as amended, to have the compensation paid based on these performance goals be eligible for full deductibility under Section 162(m) of the Internal Revenue Code.

\$750,000,000

CREDIT AGREEMENT

among

PACIFIC GAS AND ELECTRIC COMPANY,
as Borrower,

The Several Lenders from Time to Time Parties Hereto,

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent,

THE ROYAL BANK OF SCOTLAND PLC,
as Syndication Agent,

and

BANCO BILBAO VIZCAYA ARGENTARIA, S.A., NEW YORK BRANCH,
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH,
and

U.S. BANK NATIONAL ASSOCIATION,
as Documentation Agents

Dated as of June 8, 2010

WELLS FARGO SECURITIES, LLC

and

RBS SECURITIES INC.,
as Joint Lead Arrangers and Joint Book Runners

TABLE OF CONTENTS

	<u>Page</u>
SECTION 1. DEFINITIONS	1
1.1 Defined Terms	1
1.2 Other Definitional Provisions	15
SECTION 2. AMOUNT AND TERMS OF COMMITMENTS	16
2.1 Commitments	16
2.2 Procedure for Revolving Loan Borrowing	16
2.3 Commitment Increases	16
2.4 Swingline Commitment	18
2.5 Procedure for Swingline Borrowing; Refunding of Swingline Loans	18
2.6 Facility Fees, etc	20
2.7 Termination or Reduction of Commitments; Extension of Termination Date	20
2.8 Prepayments	22
2.9 Conversion and Continuation Options	23
2.10 Limitations on Eurodollar Tranches	23
2.11 Interest Rates and Payment Dates	23
2.12 Computation of Interest and Fees	24
2.13 Inability to Determine Interest Rate	24
2.14 Pro Rata Treatment and Payments; Notes	24
2.15 Requirements of Law	26
2.16 Taxes	27
2.17 Indemnity	29
2.18 Change of Lending Office	29
2.19 Replacement of Lenders	29
2.20 Defaulting Lenders	30
SECTION 3. REPRESENTATIONS AND WARRANTIES	31
3.1 Financial Condition	31
3.2 No Change	32
3.3 Existence; Compliance with Law	32
3.4 Power; Authorization; Enforceable Obligations	32
3.5 No Legal Bar	32
3.6 Litigation	32
3.7 No Default	33
3.8 Taxes	33
3.9 Federal Regulations	33
3.10 ERISA	33
3.11 Investment Company Act; Other Regulations	34
3.12 Use of Proceeds	34
3.13 Environmental Matters	34
3.14 Regulatory Matters	34
SECTION 4. CONDITIONS PRECEDENT	34
4.1 Conditions to the Effective Date	34
4.2 Conditions to Each Credit Event	35

SECTION 5.	AFFIRMATIVE COVENANTS	35
5.1	Financial Statements	36
5.2	Certificates; Other Information	36
5.3	Payment of Taxes	37
5.4	Maintenance of Existence; Compliance	37
5.5	Maintenance of Property; Insurance	37
5.6	Inspection of Property; Books and Records; Discussions	37
5.7	Notices	37
5.8	Maintenance of Licenses, etc	38
SECTION 6.	NEGATIVE COVENANTS	38
6.1	Consolidated Capitalization Ratio	38
6.2	Liens	38
6.3	Fundamental Changes	38
SECTION 7.	EVENTS OF DEFAULT	39
SECTION 8.	THE AGENTS	41
8.1	Appointment	41
8.2	Delegation of Duties	41
8.3	Exculpatory Provisions	41
8.4	Reliance by Administrative Agent	42
8.5	Notice of Default	42
8.6	Non-Reliance on Agents and Other Lenders	42
8.7	Indemnification	43
8.8	Agent in Its Individual Capacity	43
8.9	Successor Administrative Agent	43
8.10	Documentation Agents and Syndication Agent	44
SECTION 9.	MISCELLANEOUS	44
9.1	Amendments and Waivers	44
9.2	Notices	45
9.3	No Waiver; Cumulative Remedies	46
9.4	Survival of Representations and Warranties	46
9.5	Payment of Expenses and Taxes	47
9.6	Successors and Assigns; Participations and Assignments	48
9.7	Adjustments; Set off	51
9.8	Counterparts	51
9.9	Severability	51
9.10	Integration	51
9.11	GOVERNING LAW	51
9.12	Submission To Jurisdiction; Waivers	52
9.13	Acknowledgments	52
9.14	Confidentiality	52
9.15	WAIVERS OF JURY TRIAL	53
9.16	USA Patriot Act	53
9.17	Judicial Reference	53

SCHEDULES:

1.1A Commitments

EXHIBITS:

A	Form of New Lender Supplement
B	Form of Commitment Increase Supplement
C	Form of Compliance Certificate
D	Form of Closing Certificate
E	Form of Assignment and Assumption
F	Form of Legal Opinion of Orrick, Herrington & Sutcliffe LLP
G	Form of Exemption Certificate
H	Form of Note

CREDIT AGREEMENT (this “ Agreement ”), dated as of June 8, 2010, among PACIFIC GAS AND ELECTRIC COMPANY, a California corporation (the “ Borrower ”), the several banks and other financial institutions or entities from time to time parties to this Agreement (the “ Lenders ”), WELLS FARGO SECURITIES LLC and RBS SECURITIES INC., as joint lead arrangers and joint book runners (together and in such capacity, the “ Arrangers ”), THE ROYAL BANK OF SCOTLAND PLC, as syndication agent (in such capacity, the “ Syndication Agent ”), BANCO BILBAO VIZCAYA ARGENTARIA, S.A., New York Branch, THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., New York Branch, and U.S. BANK NATIONAL ASSOCIATION, as documentation agents (in such capacities, the “ Documentation Agents ”), and WELLS FARGO BANK, NATIONAL ASSOCIATION (“ Wells Fargo ”), as administrative agent (in such capacity, together with any successor thereto, the “ Administrative Agent ”).

W I T N E S S E T H :

WHEREAS, the Borrower has requested that the Lenders provide credit to the Borrower, and the Lenders are willing to do so on the terms and conditions set forth herein;

NOW, THEREFORE, IT IS AGREED THAT in consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

SECTION 1. DEFINITIONS

1.1 Defined Terms . As used in this Agreement, the terms listed in this Section 1.1 shall have the respective meanings set forth in this Section 1.1.

“ ABR ”: for any day, a rate per annum equal to the greatest of (a) the Base Rate in effect on such day; (b) the Federal Funds Effective Rate in effect on such day plus ¹ / 2 of 1%; and (c) the Eurodollar Base Rate for a Eurodollar Loan with a one-month Interest Period commencing on such day plus the Applicable Margin for Eurodollar Loans. For purposes hereof, “ Base Rate ” shall mean the rate of interest per annum publicly announced from time to time by the Administrative Agent as its base rate in effect at its principal office in Charlotte, North Carolina (the Base Rate not being intended to be the lowest rate of interest charged by the Administrative Agent in connection with extensions of credit to debtors). Any change in the ABR due to a change in the Base Rate, the Federal Funds Effective Rate or the Eurodollar Base Rate shall be effective as of the opening of business on the effective day of such change in the Base Rate, the Federal Funds Effective Rate or the Eurodollar Base Rate, respectively.

“ ABR Loans ”: Loans the rate of interest applicable to which is based upon the ABR.

“ Act ”: as defined in Section 9.16.

“ Administrative Agent ”: as defined in the preamble hereto.

“ Agents ”: the collective reference to the Syndication Agent, the Documentation Agents and the Administrative Agent.

“ Agreement ”: as defined in the preamble hereto.

“ Applicable Margin ”: for any day, the applicable rate per annum set forth under the relevant column heading below, based upon the Ratings then in effect:

<u>Level</u>	<u>Rating S&P/Moody's</u>	<u>Applicable Margin for ABR Loans</u>	<u>Applicable Margin for Eurodollar Loans</u>
1	A/A2 or higher	0%	1.325%
2	A-/A3	0%	1.550%
3	BBB+/Baa1	0%	1.750%
4	BBB/Baa2	0%	1.875%
5	BBB-/Baa3 or lower	0%	2.000%

Subject to the provisions of this paragraph regarding split ratings, changes in the Applicable Margins shall become effective on the date on which S&P and/or Moody's changes its relevant Rating. In the event the Ratings of S&P and Moody's are in different levels set forth in the grid above, the higher of the two Ratings (i.e., the Rating set forth in the grid above opposite the lower numerical level number) shall govern. In the event that, at any time, a Rating is not available from one of such rating agencies, the Applicable Margins shall be determined on the basis of the Rating from the other rating agency. In the event that, at any time, Ratings from each such rating agency are not available for companies generally, the Applicable Margins shall be determined on the basis of the last Rating(s) made available. In the event that, at any time, such Ratings are not available for the Borrower but are generally available for other companies, then the Applicable Margins shall be those set forth above opposite level 5.

“ Arrangers ”: as defined in the preamble hereto.

“ Assignee ”: as defined in Section 9.6(b).

“ Assignment and Assumption ”: an Assignment and Assumption, substantially in the form of Exhibit E.

“ Available Commitment ”: as to any Lender at any time, an amount equal to the excess, if any, of (a) such Lender's Commitment then in effect over (b) such Lender's Extensions of Credit then outstanding.

“ Beneficial Owner ”: as defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular “person” (as that term is used in Sections 13(d) and 14(d) of the Exchange Act), such “person” will be deemed to have beneficial ownership of all securities that such “person” has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms “Beneficially Owns” and “Beneficially Owned” have correlative meanings.

“ Benefitted Lender ”: as defined in Section 9.7(a).

“ Board ”: the Board of Governors of the Federal Reserve System of the United States (or any successor).

“ Borrower ”: as defined in the preamble hereto.

“ Borrowing Date ”: any Business Day specified by the Borrower as a date on which the Borrower requests the Lenders to make Loans hereunder.

“Business Day”: a day other than a Saturday, Sunday or other day on which commercial banks in New York, New York, Charlotte, North Carolina or San Francisco, California are authorized or required by law to close, provided, that with respect to notices and determinations in connection with, and payments of principal and interest on, Eurodollar Loans, such day is also a day for trading by and between banks in Dollar deposits in the London interbank eurodollar market.

“Capital Stock”: any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

“Change of Control”: PCG and its Subsidiaries shall at any time not be the Beneficial Owner, directly or indirectly, of at least 80% of the common stock or 70% of the voting Capital Stock of the Borrower; provided that any such event shall not constitute a Change of Control if, after giving effect to such event, the Borrower’s senior, unsecured, non credit-enhanced debt ratings shall be at least the higher of (1) Baa3 from Moody’s and BBB- from S&P and (2) the ratings by such rating agencies of such debt in effect immediately before the earlier of the occurrence or the public announcement of such event.

“Code”: the Internal Revenue Code of 1986, as amended from time to time.

“Commitment”: as to any Lender, the obligation of such Lender, if any, to make Revolving Loans and participate in Swingline Loans in an aggregate principal amount not to exceed the amount set forth under the heading “Commitment” opposite such Lender’s name on Schedule 1.1A or in the Assignment and Assumption or New Lender Supplement pursuant to which such Lender became a party hereto, as the same may be changed from time to time pursuant to the terms hereof. The original amount of the Total Commitments is \$750,000,000.

“Commitment Increase Notice”: as defined in Section 2.3(a).

“Commitment Increase Supplement”: as defined in Section 2.3(c).

“Commitment Period”: the period from and including the Effective Date to the Termination Date.

“Commonly Controlled Entity”: an entity, whether or not incorporated, that is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group that includes the Borrower and that is treated as a single employer under Section 414 of the Code.

“Compliance Certificate”: a certificate duly executed by a Responsible Officer substantially in the form of Exhibit C.

“Conduit Lender”: any special purpose corporation organized and administered by any Lender for the purpose of making Loans otherwise required to be made by such Lender and designated by such Lender in a written instrument; provided, that the designation by any Lender of a Conduit Lender shall not relieve the designating Lender of any of its obligations to fund a Loan under this Agreement if, for any reason, its Conduit Lender fails to fund any such Loan, and the designating Lender (and not the Conduit Lender) shall have the sole right and responsibility to deliver all consents and waivers required or requested under this Agreement with respect to its Conduit Lender, and provided, further, that no Conduit Lender shall (a) be entitled to receive any greater amount pursuant to

Section 2.15, 2.16, 2.17 or 9.5 than the designating Lender would have been entitled to receive in respect of the extensions of credit made by such Conduit Lender or (b) be deemed to have any Commitment.

“Consolidated Capitalization”: on any date of determination, the sum of (a) Consolidated Total Debt on such date, plus without duplication, (b) (i) the amounts set forth opposite the captions “common shareholders’ equity” (or any similar caption) and “preferred stock” (or any similar caption) on the consolidated balance sheet, prepared in accordance with GAAP, of the Borrower and its Subsidiaries as of such date, and (ii) the outstanding principal amount of any junior subordinated deferrable interest debentures or other similar securities issued by the Borrower or any of its Subsidiaries after the Effective Date.

“Consolidated Capitalization Ratio”: means, on any date of determination, the ratio of (a) Consolidated Total Debt to (b) Consolidated Capitalization.

“Consolidated Total Debt”: at any date, the aggregate principal amount of all obligations of the Borrower and its Significant Subsidiaries at such date that in accordance with GAAP would be classified as debt on a consolidated balance sheet of the Borrower, and without duplication all Guarantee Obligations of the Borrower and its Significant Subsidiaries at such date in respect of obligations of any other Person that in accordance with GAAP would be classified as debt on a consolidated balance sheet of such Person; provided that, the determination of “Consolidated Total Debt” shall exclude, without duplication, (a) the Securitized Bonds, (b) Indebtedness of the Borrower and its Significant Subsidiaries in an amount equal to the amount of cash held as cash collateral for any fully cash collateralized letter of credit issued for the account of the Borrower or any Significant Subsidiary, (c) imputed Indebtedness of the Borrower or any Significant Subsidiary incurred in connection with power purchase and fuel agreements, (d) any junior subordinated deferrable interest debentures or other similar securities issued by the Borrower or any of its Subsidiaries after the Effective Date and (e) as of a date of determination, the amount of any securities included within the caption “preferred stock” (or any similar caption) on the consolidated balance sheet, prepared in accordance with GAAP, of the Borrower and its Subsidiaries as of such date.

“Continuing Lender”: as defined in Section 2.7.

“Contractual Obligation”: as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“CPUC”: the California Public Utilities Commission or its successor.

“Credit Event”: as defined in Section 4.2.

“Default”: any of the events specified in Section 7, whether or not any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

“Defaulting Lender”: means any Lender, as reasonably determined by the Administrative Agent, that has (a) failed to fund any portion of its Revolving Loans within three (3) business days of the date required to be funded by it under this Agreement, (b) notified the Borrower, the Administrative Agent or any Lender in writing that it does not intend to comply with any of its funding obligations under this Agreement or has made a public statement to the effect that it does not intend to comply with its funding obligations under this Agreement (other than a notice of a good faith dispute or related

communications) or generally under other agreements in which it commits to extend credit, (c) failed, within three (3) Business Days after written request by the Administrative Agent (based on the Administrative Agent's reasonable belief that such Lender may not fulfill its funding obligation), to confirm that it will comply with the terms of this Agreement relating to its obligations to fund prospective Revolving Loans, unless the subject of a good faith dispute, (d) otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it under this Agreement within three (3) business days of the date when due, unless the subject of a good faith dispute, or (e) become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has consented to, approved of or acquiesced in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has consented to, approved of or acquiesced in any such proceeding or appointment; *provided* that (i) if a Lender would be a "Defaulting Lender" solely by reason of events relating to a parent company of such Lender or solely because a Governmental Authority has been appointed as receiver, conservator, trustee or custodian for such Lender, in each case as described in clause (e) above, the Administrative Agent may, in its discretion, determine that such Lender is not a "Defaulting Lender" if and for so long as the Administrative Agent is satisfied that such Lender will continue to perform its funding obligations hereunder and (ii) a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of voting stock or any other equity interest in such Lender or a parent company thereof by a Governmental Authority or an instrumentality thereof, or the exercise of control over such Lender or parent company thereof, by a Governmental Authority or instrumentality thereof.

"Disposition": with respect to any property, any sale, lease, sale and leaseback, assignment, conveyance, transfer or other disposition thereof. The terms "Dispose" and "Disposed of" shall have correlative meanings.

"Documentation Agents": as defined in the preamble hereto.

"Dollars" and "\$": dollars in lawful currency of the United States.

"Effective Date": the date on which the conditions precedent set forth in Section 4.1 shall have been satisfied or waived.

"Eligible Assignee": (a) any commercial bank or other financial institution having a senior unsecured debt rating by Moody's of A3 or better and by S&P of A- or better, which is domiciled in a country which is a member of the OECD or (b) with respect to any Person referred to in the preceding clause (a), any other Person that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of business all of the Capital Stock of which is owned, directly or indirectly, by such Person; *provided* that in the case of clause (b), the Borrower shall have consented to the designation of such Person as an Eligible Assignee (such consent of the Borrower not to be unreasonably withheld).

"Environmental Laws": any and all foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of human health or the environment, as now or may at any time hereafter be in effect.

“ ERISA ”: the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ Eurocurrency Liabilities ”: as defined in Regulation D of the Board.

“ Eurocurrency Reserve Requirements ”: of any Lender for any Interest Period as applied to a Eurodollar Loan, the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during any such percentage shall be so applicable) under any regulations of the Board or other Governmental Authority having jurisdiction with respect to determining the maximum reserve requirement (including basic, supplemental and emergency reserves) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

“ Eurodollar Base Rate ”: with respect to each day during each Interest Period pertaining to a Eurodollar Loan, the rate per annum determined on the basis of the rate for deposits in Dollars for a period equal to such Interest Period commencing on the first day of such Interest Period appearing on Reuters Screen LIBOR01 Page (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to Dollar deposits in the London interbank market) at or about 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period. In the event that such rate does not appear on Reuters Screen LIBOR01 Page (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to Dollar deposits in the London interbank market), the “ Eurodollar Base Rate ” shall be determined by reference to such other comparable publicly available service for displaying eurodollar rates as may be selected by the Administrative Agent or, in the absence of such availability, by reference to the rate at which the Administrative Agent is offered Dollar deposits at or about 11:00 A.M., New York City time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where its eurodollar and foreign currency and exchange operations are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein.

“ Eurodollar Loans ”: Loans the rate of interest applicable to which is based upon the Eurodollar Rate.

“ Eurodollar Rate ”: with respect to each day during each Interest Period pertaining to a Eurodollar Loan, a rate per annum determined for such day in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

$$\frac{\text{Eurodollar Base Rate}}{1.00 - \text{Eurocurrency Reserve Requirements}}$$

“ Eurodollar Tranche ”: the collective reference to Eurodollar Loans the then current Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Loans shall originally have been made on the same day).

“ Event of Default ”: any of the events specified in Section 7, provided that any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

“ Exchange Act ”: Securities Exchange Act of 1934, as amended.

“ Extension Notice ”: as defined in Section 2.7(b).

“ Extensions of Credit ”: as to any Lender at any time, an amount equal to the sum of (a) the aggregate principal amount of all Revolving Loans held by such Lender then outstanding and (b) an amount equal to the aggregate principal amount of all Swingline Loans then outstanding multiplied by such Lender’s Percentage.

“ Facility Fee Rate ”: for any day, the rate per annum determined pursuant to the grid set forth below, based upon the Ratings then in effect:

<u>Level</u>	<u>Rating S&P/Moody’s</u>	<u>Facility Fee Rate</u>
1	A/A2 or higher	0.175%
2	A-/A3	0.200%
3	BBB+/Baa1	0.250%
4	BBB/Baa2	0.375%
5	BBB-/Baa3 or lower	0.500%

Subject to the provisions of this paragraph regarding split ratings, changes in the Facility Fee Rate shall become effective on the date on which S&P and/or Moody’s changes its relevant Rating. In the event the Ratings of S&P and Moody’s are in different levels set forth in the grid above, the higher of the two Ratings (i.e., the Rating set forth in the grid above opposite the lower numerical level number) shall govern. In the event that, at any time, a Rating is not available from one of such rating agencies, the Facility Fee Rate shall be determined on the basis of the Rating from the other rating agency. In the event that, at any time, Ratings from each such rating agency are not available for companies generally, the Facility Fee Rate shall be determined on the basis of the last Rating(s) made available. In the event that, at any time, such Ratings are not available for the Borrower but are generally available for other companies, then the Facility Fee Rate shall be that set forth above opposite level 5.

“ Federal Funds Effective Rate ”: for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day of such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by it.

“ Fee Payment Date ”: (a) the fifth Business Day following the last day of each March, June, September and December during the Commitment Period, (b) the last day of the Commitment Period and (c) the last day of each March, June, September and December after the last day of the Commitment Period, so long as any principal amount of the Loans remain outstanding after the last day of the Commitment Period.

“ FPA ”: the Federal Power Act, as amended, and the rules and regulations promulgated thereunder.

“ Fronting Exposure ”: at any time there is a Defaulting Lender, such Defaulting Lender’s Percentage of Swingline Loans other than Swingline Loans as to which such Defaulting Lender’s participation obligation has been reallocated to other Lenders or cash collateralized in accordance with the terms hereof.

“ Funding Office ”: the office of the Administrative Agent specified in Section 9.2 or such other office as may be specified from time to time by the Administrative Agent as its funding office by written notice to the Borrower and the Lenders.

“ GAAP ”: generally accepted accounting principles in the United States as in effect from time to time, except as noted below. In the event that any “Change in Accounting Principles” (as defined below) shall occur and such change results in a change in the method of calculation of financial covenants, standards or terms in this Agreement, then, upon the request of the Borrower or the Required Lenders, the Borrower and the Administrative Agent agree to enter into negotiations in order to amend such provisions of this Agreement so as to reflect equitably such Change in Accounting Principles with the desired result that the criteria for evaluating the Borrower’s financial condition shall be the same after such Change in Accounting Principles as if such Change in Accounting Principles had not been made. Until such time as such an amendment shall have been executed and delivered by the Borrower, the Administrative Agent and the Required Lenders, all financial covenants, standards and terms in this Agreement shall continue to be calculated or construed as if such Change in Accounting Principles had not occurred. “ Change in Accounting Principles ” refers to changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants or any successor thereto, the SEC or, if applicable, the Public Company Accounting Oversight Board.

“ Governmental Authority ”: any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization (including the National Association of Insurance Commissioners).

“ Guarantee Obligation ”: as to any Person (the “ guaranteeing person ”), any obligation, including a reimbursement, counterindemnity or similar obligation, of the guaranteeing person that guarantees any Indebtedness, leases, dividends or other obligations (the “ primary obligations ”) of any other third Person (the “ primary obligor ”) in any manner, whether directly or indirectly, including any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof or (v) to reimburse or indemnify an issuer of a letter of credit, surety bond or guarantee issued by such issuer in respect of primary obligations of a primary obligor other than the Borrower or any Significant Subsidiary; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The

amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee Obligation is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee Obligation, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be such guaranteeing person's reasonably anticipated liability in respect thereof as determined by the Borrower in good faith.

“ Indebtedness ”: of any Person at any date, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services (other than trade payables, including under energy procurement and transportation contracts, incurred in the ordinary course of such Person's business), (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all obligations of such Person as lessee which are capitalized in accordance with GAAP, (f) all obligations of such Person, contingent or otherwise, as an account party or applicant under or in respect of acceptances, letters of credit, surety bonds or similar arrangements (other than reimbursement obligations, which are not due and payable on such date, in respect of documentary letters of credit issued to provide for the payment of goods and services in the ordinary course of business), (g) the liquidation value of all mandatorily redeemable preferred Capital Stock of such Person, (h) all Guarantee Obligations of such Person in respect of obligations of the kind referred to in clauses (a) through (g) above, (i) all obligations of the kind referred to in clauses (a) through (h) above secured by (or for which the holder of such obligation has an existing right, contingent or otherwise, to be secured by) any Lien on property (including accounts and contract rights) owned by such Person, whether or not such Person has assumed or become liable for the payment of such obligation (provided, that if such Person is not liable for such obligation, the amount of such Person's Indebtedness with respect thereto shall be deemed to be the lesser of the stated amount of such obligation and the value of the property subject to such Lien), and (j) for the purposes of Section 7(e) only, all obligations of such Person in respect of Swap Agreements, provided that Indebtedness as used in this Agreement shall exclude any Non-Recourse Debt. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness expressly provide that such Person is not liable therefor.

“ Indenture ”: the Indenture, dated as of April 22, 2005 (which supplemented, amended and restated the Indenture of Mortgage, dated as of March 11, 2004, between the Borrower and the Indenture Trustee, as supplemented by the First Supplemental Indenture, dated as of March 23, 2004, the Second Supplemental Indenture, dated as of April 12, 2004), as supplemented by the First Supplemental Indenture, dated as of March 13, 2007, as further supplemented by the Second Supplemental Indenture, dated as of December 4, 2007, as further supplemented by the Third Supplemental Indenture, dated as of March 3, 2008, as further supplemented by the Fourth Supplemental Indenture, dated as of October 15, 2008, as further supplemented by the Fifth Supplemental Indenture, dated as of November 18, 2008, as further supplemented by the Sixth Supplemental Indenture, dated as of March 6, 2009, as further supplemented by the Seventh Supplemental Indenture, dated as of June 11, 2009, as further supplemented by the Eighth Supplemental

Indenture, dated as of November 18, 2009, as further supplemented by the Ninth Supplemental Indenture, dated as of April 1, 2010, and as further supplemented or amended from time to time.

“ Indenture Trustee ”: The Bank of New York Mellon Trust Company, N.A., as successor to BNY Western Trust Company, and any successor thereto as trustee under the Indenture

“ Information Memorandum ”: the information memorandum dated May 5, 2010, and furnished to certain Lenders in connection with the syndication of the Commitments, as supplemented by each and all Specified Exchange Act Filings filed by the Borrower during the period from March 31, 2010 through the date of this Agreement.

“ Insolvency ”: with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

“ Insolvent ”: pertaining to a condition of Insolvency.

“ Interest Payment Date ”: (a) as to any ABR Loan (other than any Swingline Loan), the last day of each March, June, September and December to occur while such Loan is outstanding and the final maturity date of such Loan, (b) as to any Eurodollar Loan having an Interest Period of three months or less, the last day of such Interest Period, (c) as to any Eurodollar Loan having an Interest Period longer than three months, each day that is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period, (d) as to any Eurodollar Loan, the date of any repayment or prepayment made in respect thereof and (e) as to any Swingline Loan, the day that such Loan is required to be repaid.

“ Interest Period ”: as to any Eurodollar Loan, (a) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six or (if available to all Lenders) nine or twelve months thereafter, as selected by the Borrower in its notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six or (if available to all Lenders) nine or twelve months thereafter, as selected by the Borrower by irrevocable notice to the Administrative Agent not later than 12:00 Noon, New York City time, on the date that is three Business Days prior to the last day of the then current Interest Period with respect thereto; provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(ii) the Borrower may not select an Interest Period that would extend beyond the Termination Date;

(iii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month; and

(iv) the Borrower shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Loan.

“ knowledge of the Borrower ”: actual knowledge of any Responsible Officer of the Borrower.

“ Lenders ”: as defined in the preamble hereto; provided , that unless the context otherwise requires, each reference herein to the Lenders shall be deemed to include any Conduit Lender.

“ Lien ”: any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement and any capital lease having substantially the same economic effect as any of the foregoing).

“ Loan ”: any loan made by any Lender pursuant to this Agreement, including Swingline Loans and Revolving Loans.

“ Loan Documents ”: this Agreement and the Notes and, in each case, any amendment, waiver, supplement or other modification to any of the foregoing.

“ Material Adverse Effect ”: (a) a change in the business, property, operations or financial condition of the Borrower and its Subsidiaries taken as a whole that could reasonably be expected to materially and adversely affect the Borrower’s ability to perform its obligations under the Loan Documents or (b) a material adverse effect on the validity or enforceability of this Agreement or any of the other Loan Documents.

“ Materials of Environmental Concern ”: any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

“ Moody’s ”: Moody’s Investors Service, Inc.

“ Mortgaged Property ”: as defined in the Indenture.

“ Multiemployer Plan ”: a Plan that is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“ New Lender Supplement ”: as defined in Section 2.3(b).

“ New Revolving Credit Lender ”: as defined in Section 2.3(b).

“ Non-Excluded Taxes ”: as defined in Section 2.16(a).

“ Non-Extending Lender ”: as defined in Section 2.7.

“ Non-Procurement Facility Limit ”: \$250,000,000 or such other amount as the Borrower shall notify the Administrative Agent in writing pursuant to Section 9.1.

“ Non-Recourse Debt ”: Indebtedness of the Borrower or any of its Significant Subsidiaries that is incurred in connection with the acquisition, construction, sale, transfer or other disposition of specific assets, to the extent recourse, whether contractual or as a matter of law, for non-

payment of such Indebtedness is limited (a) to such assets, or (b) if such assets are (or are to be) held by a Subsidiary formed solely for such purpose, to such Subsidiary or the Capital Stock of such Subsidiary.

“ Non-U.S. Lender ”: as defined in Section 2.16(d).

“ Notes ”: as defined in Section 2.14(f).

“ Obligations ”: the unpaid principal of and interest on (including, without limitation, interest accruing after the maturity of the Loans and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the Loans and all other obligations and liabilities of the Borrower to the Administrative Agent or to any Lender, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, this Agreement, any other Loan Document or any other document made, delivered or given in connection herewith or therewith, whether on account of principal, interest, fees, indemnities, costs, expenses (including, without limitation, all fees, charges and disbursements of counsel to the Administrative Agent or to any Lender that are required to be paid by the Borrower pursuant hereto) or otherwise.

“ OECD ”: the countries constituting the “Contracting Parties” to the Convention on the Organisation For Economic Co-operation and Development, as such term is defined in Article 4 of such Convention.

“ Other Taxes ”: any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“ Participant ”: as defined in Section 9.6(c).

“ PBGC ”: the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA (or any successor).

“ PCG ”: PG&E Corporation, a California corporation and the holder of all of the issued and outstanding common stock of the Borrower.

“ Percentage ”: as to any Lender at any time, the percentage which such Lender’s Commitment then constitutes of the Total Commitments or, at any time after the Commitments shall have expired or terminated, the percentage which the aggregate principal amount of such Lender’s Revolving Loans then outstanding constitutes of the aggregate principal amount of the Revolving Loans then outstanding, provided, that, in the event that the Revolving Loans are paid in full prior to the reduction to zero of the Total Extensions of Credit, the Percentages shall be determined in a manner designed to ensure that the other outstanding Extensions of Credit shall be held by the Lenders on a comparable basis.

“ Person ”: an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

“ Plan ”: at a particular time, any employee benefit plan that is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA.

“ Procurement Facility Limit ”: \$500,000,000 or such other amount as the Borrower shall notify the Administrative Agent in writing pursuant to Section 9.1.

“ Rating ”: each rating announced by S&P and Moody’s in respect of the Borrower’s senior unsecured, non credit-enhanced debt.

“ Refunded Swingline Loans ”: as defined in Section 2.5.

“ Register ”: as defined in Section 9.6(b).

“ Regulation U ”: Regulation U of the Board as in effect from time to time.

“ Reorganization ”: with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

“ Reportable Event ”: any of the events set forth in Section 4043(c) of ERISA, other than those events as to which the thirty-day notice period is waived under subsections .27, .28, .29, .30, .31, .32, .34 or .35 of PBGC Reg. § 4043.

“ Required Lenders ”: at any time, the holders of more than 50% of the Total Commitments then in effect or, if the Commitments have been terminated, the Total Extensions of Credit then outstanding.

“ Requirement of Law ”: as to any Person, the Articles of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“ Responsible Officer ”: the chief executive officer, president, chief financial officer, treasurer or assistant treasurer of the Borrower, but in any event, with respect to financial matters, the chief financial officer, treasurer or assistant treasurer of the Borrower.

“ Revolving Credit Offered Increase Amount ”: as defined in Section 2.3(a).

“ Revolving Credit Re-Allocation Date ”: as defined in Section 2.3(d).

“ Revolving Loans ”: as defined in Section 2.1(a).

“ S&P ”: Standard & Poor’s Ratings Services.

“ SEC ”: the Securities and Exchange Commission, any successor thereto and any analogous Governmental Authority.

“ Securitized Bonds ”: any securitized bonds or similar asset-backed securities that are non-recourse to the Borrower, are issued by a special purpose subsidiary of the Borrower and are

payable from a specific or dedicated rate component, including the energy recovery bonds backed by energy recovery property that the Borrower issued in 2005, the outstanding principal amount of which was \$1,120,270,137 on March 31, 2010.

“ Significant Subsidiary ”: as defined in Article 1, Rule 1-02(w) of Regulation S-X of the Exchange Act as of the Effective Date, provided that notwithstanding the foregoing, PG&E Energy Recovery Funding LLC and any other special purpose finance subsidiary shall not constitute a Significant Subsidiary. Unless otherwise qualified, all references to a “Significant Subsidiary” or to “Significant Subsidiaries” in this Agreement shall refer to a Significant Subsidiary or Significant Subsidiaries of the Borrower.

“ Single Employer Plan ”: any Plan that is covered by Title IV of ERISA, but that is not a Multiemployer Plan.

“ Specified Exchange Act Filings ”: the Borrower’s Form 10-K annual report for the year ended December 31, 2009 and each and all of the Form 10-Ks, Form 10-Qs and Form 8-Ks (and to the extent applicable proxy statements) filed by the Borrower or PCG with the SEC after December 31, 2009 and prior to the date that is one Business Day before the date of this Agreement.

“ Subsidiary ”: as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

“ Swap Agreement ”: any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Borrower or any of its Subsidiaries shall be a “Swap Agreement”.

“ Swingline Commitment ”: the obligation of the Swingline Lender to make Swingline Loans pursuant to Section 2.4 in an aggregate principal amount at any one time outstanding not to exceed \$75,000,000.

“ Swingline Lender ”: Wells Fargo, in its capacity as the lender of Swingline Loans.

“ Swingline Loans ”: as defined in Section 2.4.

“ Swingline Participation Amount ”: as defined in Section 2.5.

“ Syndication Agent ”: as defined in the preamble hereto.

“ Termination Date ”: February 26, 2012 or such later date as may be determined pursuant to Section 2.7(b) or such earlier date as otherwise determined pursuant to Section 2.7.

“Total Commitments”: at any time, the aggregate amount of the Commitments of all Lenders at such time.

“Total Extensions of Credit”: at any time, the aggregate amount of the Extensions of Credit of all Lenders at such time.

“Transferee”: any Assignee or Participant.

“Type”: as to any Loan, its nature as an ABR Loan or a Eurodollar Loan.

“United States”: the United States of America.

“Wells Fargo”: as defined in the preamble hereto.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the other Loan Documents or any certificate or other document made or delivered pursuant hereto or thereto.

(b) As used herein and, except as otherwise provided therein, in the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, (i) accounting terms relating to the Borrower and its Significant Subsidiaries defined in Section 1.1 and accounting terms partly defined in Section 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP, (ii) the words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”, (iii) the word “incur” shall be construed to mean incur, create, issue, assume or become liable in respect of (and the words “incurred” and “incurrence” shall have correlative meanings), (iv) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, Capital Stock, securities, revenues, accounts, leasehold interests and contract rights, and (v) references to agreements or other Contractual Obligations shall, unless otherwise specified, be deemed to refer to such agreements or Contractual Obligations as amended, supplemented, restated or otherwise modified from time to time.

(c) The words “hereof”, “herein” and “hereunder” and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(e) The Borrower shall not be required to perform, nor shall it be required to guarantee the performance of, any of the affirmative covenants set forth in Section 5 that apply to any of its Significant Subsidiaries nor shall any of the Borrower’s Significant Subsidiaries be required to perform, nor shall any of such Significant Subsidiaries be required to guarantee the performance of, any of the Borrower’s affirmative covenants set forth in Section 5 or any of the affirmative covenants set forth in Section 5 that apply to any other Significant Subsidiary; provided, that nothing in this Section 1.2(e) shall prevent the occurrence of a Default or an Event of Default arising out of the Borrower’s failure to cause any Significant Subsidiary to comply with the provisions of this Agreement applicable to such Significant Subsidiary.

SECTION 2. AMOUNT AND TERMS OF COMMITMENTS

2.1 Commitments. (a) Subject to the terms and conditions hereof, each Lender severally agrees to make revolving credit loans (“Revolving Loans”) to the Borrower from time to time on or after the Effective Date and during the Commitment Period in an aggregate principal amount at any one time outstanding which, when added to an amount equal to the aggregate principal amount of all Swingline Loans then outstanding multiplied by such Lender’s Percentage, does not exceed the amount of such Lender’s Commitment; provided that, (x) subject to Section 9.1, the aggregate outstanding principal amount of all Loans, the proceeds of which were used for activities other than energy procurement, may not at any time exceed the Non-Procurement Facility Limit and (y) after giving effect to the Revolving Loans requested to be made, the aggregate amount of the Available Commitments shall not be less than zero. During the Commitment Period, the Borrower may use the Commitments by borrowing, prepaying the Revolving Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof. The Revolving Loans may from time to time be Eurodollar Loans or ABR Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with Sections 2.2 and 2.9.

(b) The Borrower shall repay all outstanding Revolving Loans on the Termination Date.

2.2 Procedure for Revolving Loan Borrowing. The Borrower may borrow under the Commitments during the Commitment Period on any Business Day, provided that the Borrower shall give the Administrative Agent irrevocable notice (which notice must be received by the Administrative Agent (a) prior to 12:00 Noon, New York City time, three Business Days prior to the requested Borrowing Date, in the case of Eurodollar Loans, or (b) prior to 11:00 A.M., New York City time, on the requested Borrowing Date, in the case of ABR Loans) specifying (i) the amount and Type of Revolving Loans to be borrowed, (ii) the requested Borrowing Date and (iii) in the case of Eurodollar Loans, the respective amounts of each such Type of Loan and the respective lengths of the initial Interest Period therefor. Each borrowing under the Commitments shall be in an amount equal to \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof (or, if the then aggregate Available Commitments are less than \$5,000,000, such lesser amount); provided, that the Swingline Lender may request, on behalf of the Borrower, borrowings under the Commitments that are ABR Loans in other amounts pursuant to Section 2.5. Upon receipt of any such notice from the Borrower, the Administrative Agent shall promptly notify each Lender thereof. Each Lender will make the amount of its *pro rata* share of each borrowing available to the Administrative Agent for the account of the Borrower at the Funding Office prior to 12:00 Noon, New York City time, on the Borrowing Date requested by the Borrower in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Borrower by the Administrative Agent crediting the account of the Borrower on the books of such office with the aggregate of the amounts made available to the Administrative Agent by the Lenders and in like funds as received by the Administrative Agent.

2.3 Commitment Increases.

(a) In the event that the Borrower wishes to increase the Total Commitments at any time when no Default or Event of Default has occurred and is continuing (or shall result of such increase) and subject to obtaining all necessary regulatory approvals, it shall notify the Administrative Agent in writing, given not more frequently than once a calendar year, of the amount (the “Revolving Credit Offered Increase Amount”) of such proposed increase (such notice, a “Commitment Increase Notice”) which shall be in a minimum amount equal to \$10,000,000 and

shall not exceed, in the aggregate for all increases, \$250,000,000. The Borrower shall offer each of the Lenders the opportunity to provide such Lender's Percentage of the Revolving Credit Offered Increase Amount, and if any Lender declines such offer, in whole or in part, the Borrower may offer such declined amount to (i) other Lenders and/or (ii) other banks, financial institutions or other entities with the consent of the Administrative Agent (which consent of the Administrative Agent shall not be unreasonably withheld or delayed). The Commitment Increase Notice shall specify the Lenders and/or banks, financial institutions or other entities that will be requested to provide such Revolving Credit Offered Increase Amount. The Borrower or, if requested by the Borrower, the Administrative Agent will notify such Lenders, and/or banks, financial institutions or other entities of such offer.

(b) Any additional bank, financial institution or other entity which the Borrower selects to offer a portion of the increased Total Commitments and which elects to become a party to this Agreement and obtain a Commitment in an amount so offered and accepted by it pursuant to Section 2.3(a) shall execute a new lender supplement (the "New Lender Supplement") with the Borrower and the Administrative Agent, substantially in the form of Exhibit A, whereupon such bank, financial institution or other entity (herein called a "New Revolving Credit Lender") shall become a Lender for all purposes and to the same extent as if originally a party hereto and shall be bound by and entitled to the benefits of this Agreement, provided that the Commitment of any such New Revolving Credit Lender shall be in an amount not less than \$5,000,000.

(c) Any Lender which accepts an offer to it by the Borrower to increase its Commitment pursuant to Section 2.3(a) shall, in each case, execute a Commitment Increase Supplement with the Borrower and the Administrative Agent, substantially in the form of Exhibit B, whereupon such Lender shall be bound by and entitled to the benefits of this Agreement with respect to the full amount of its Commitment as so increased.

(d) If any bank, financial institution or other entity becomes a New Revolving Credit Lender pursuant to Section 2.3(b) or any Lender's Commitment is increased pursuant to Section 2.3(c), additional Revolving Loans made on or after the effectiveness thereof (the "Revolving Credit Re-Allocation Date") shall be made *pro rata* based on the Percentages in effect on and after such Revolving Credit Re-Allocation Date (except to the extent that any such *pro rata* borrowings would result in any Lender making an aggregate principal amount of Revolving Loans in excess of its Commitment, in which case such excess amount will be allocated to, and made by, such New Revolving Credit Lenders and/or Lenders with such increased Commitments to the extent of, and *pro rata* based on, their respective Commitments otherwise available for Revolving Loans), and continuations of Eurodollar Loans outstanding on such Revolving Credit Re-Allocation Date shall be effected by repayment of such Eurodollar Loans on the last day of the Interest Period applicable thereto and the making of new Eurodollar Loans *pro rata* based on such new Percentages. In the event that on any such Revolving Credit Re-Allocation Date there is an unpaid principal amount of ABR Loans, the Borrower shall make prepayments thereof and borrowings of ABR Loans so that, after giving effect thereto, the ABR Loans outstanding are held *pro rata* based on such new Percentages. In the event that on any such Revolving Credit Re-Allocation Date there is an unpaid principal amount of Eurodollar Loans, such Eurodollar Loans shall remain outstanding with the respective holders thereof until the expiration of their respective Interest Periods (unless the Borrower elects to prepay any thereof in accordance with the applicable provisions of this Agreement), and interest on and repayments of such Eurodollar Loans will be paid thereon to the respective Lenders holding such Eurodollar Loans *pro rata* based on the respective principal amounts thereof outstanding.

(e) Notwithstanding anything to the contrary in this Section 2.3, (i) no Lender shall have any obligation to increase its Commitment unless it agrees to do so in its sole discretion and unless the Administrative Agent consents to such increase (which consent of the Administrative Agent shall not be unreasonably withheld or delayed) and (ii) in no event shall any transaction effected pursuant to this Section 2.3 (A) cause the Total Commitments to exceed \$1,000,000,000 or (B) occur at a time at which a Default or an Event of Default has occurred and is continuing.

(f) The Administrative Agent shall have received on or prior to the Revolving Credit Re-Allocation Date, for the benefit of the Lenders, (i) a legal opinion of counsel to the Borrower covering such matters as are customary for transactions of this type as may be reasonably requested by the Administrative Agent, which opinions shall be substantially the same, to the extent appropriate, as the opinions rendered by counsel to the Borrower on the Effective Date and (ii) certified copies of resolutions of the board of directors of the Borrower authorizing the Borrower to borrow the Revolving Credit Offered Increase Amount.

2.4 Swingline Commitment. (a) Subject to the terms and conditions hereof, the Swingline Lender agrees to make a portion of the credit otherwise available to the Borrower under the Commitments from time to time on or after the Effective Date during the Commitment Period by making swingline loans (“Swingline Loans”) to the Borrower; provided that (i) the aggregate principal amount of Swingline Loans outstanding at any time shall not exceed the Swingline Commitment then in effect (notwithstanding that the Swingline Loans outstanding at any time, when aggregated with the Swingline Lender’s other outstanding Revolving Loans, may exceed the Swingline Commitment or the Swingline Lender’s Commitment then in effect) and (ii) the Borrower shall not request, and the Swingline Lender shall not make, any Swingline Loan if, after giving effect to the making of such Swingline Loan, (x) the aggregate amount of the Available Commitments would be less than zero or (y) subject to Section 9.1, the aggregate outstanding principal amount of all Loans, the proceeds of which were used for activities other than energy procurement, would exceed the Non-Procurement Facility Limit. During the Commitment Period, the Borrower may use the Swingline Commitment by borrowing, repaying and reborrowing, all in accordance with the terms and conditions hereof. Swingline Loans shall be ABR Loans only.

(b) The Borrower shall repay to the Swingline Lender the then unpaid principal amount of each Swingline Loan on or prior to the date that is the earlier of (i) 30 days after the date such Swingline Loan is made and (ii) the Termination Date; provided that on each date on which a Revolving Loan is borrowed, the Borrower shall repay all Swingline Loans then outstanding.

2.5 Procedure for Swingline Borrowing; Refunding of Swingline Loans. (a) Whenever the Borrower wishes to borrow Swingline Loans, it shall give the Swingline Lender irrevocable telephonic notice confirmed promptly in writing (which telephonic notice must be received by the Swingline Lender not later than 1:00 P.M., New York City time, on the proposed Borrowing Date), specifying (i) the amount to be borrowed and (ii) the requested Borrowing Date (which shall be a Business Day during the Commitment Period). Each borrowing under the Swingline Commitment shall be in an amount equal to \$100,000 or a whole multiple thereof. Not later than 2:00 P.M., New York City time, on the Borrowing Date specified in a notice in respect of Swingline Loans, the Swingline Lender shall make available to the Administrative Agent at the Funding Office an amount in immediately available funds equal to the amount of the Swingline Loan to be made by the Swingline Lender. The Administrative Agent shall make the proceeds of such Swingline Loan available to the Borrower on such Borrowing Date by depositing such proceeds in the account of the Borrower with the Administrative Agent on such Borrowing Date in immediately available funds.

(b) The Swingline Lender, at any time and from time to time in its sole and absolute discretion may, on behalf of the Borrower (which hereby irrevocably directs the Swingline Lender to act on its behalf), on one Business Day's notice given by the Swingline Lender no later than 12:00 Noon, New York City time, request each Lender to make, and each Lender hereby agrees to make, a Revolving Loan, in an amount equal to such Lender's Percentage of the aggregate amount of the Swingline Loans (the "Refunded Swingline Loans") outstanding on the date of such notice, to repay the Swingline Lender. Each Lender shall make the amount of such Revolving Loan available to the Administrative Agent at the Funding Office in immediately available funds, not later than 10:00 A.M., New York City time, one Business Day after the date of such notice. The proceeds of such Revolving Loans shall be immediately made available by the Administrative Agent to the Swingline Lender for application by the Swingline Lender to the repayment of the Refunded Swingline Loans. The Borrower irrevocably authorizes the Swingline Lender to charge the Borrower's accounts with the Administrative Agent (up to the amount available in each such account) in order to immediately pay the amount of such Refunded Swingline Loans to the extent amounts received from the Lenders are not sufficient to repay in full such Refunded Swingline Loans.

(c) If prior to the time a Revolving Loan would have otherwise been made pursuant to Section 2.5(b), one of the events described in Section 7(f) shall have occurred and be continuing with respect to the Borrower or if for any other reason, as determined by the Swingline Lender in its sole discretion, Revolving Loans may not be made as contemplated by Section 2.5(b), each Lender shall, on the date such Revolving Loan was to have been made pursuant to the notice referred to in Section 2.5(b), purchase for cash an undivided participating interest in the then outstanding Swingline Loans by paying to the Swingline Lender an amount (the "Swingline Participation Amount") equal to (i) such Lender's Percentage times (ii) the sum of the aggregate principal amount of Swingline Loans then outstanding that were to have been repaid with such Revolving Loans.

(d) Whenever, at any time after the Swingline Lender has received from any Lender such Lender's Swingline Participation Amount, the Swingline Lender receives any payment on account of the Swingline Loans, the Swingline Lender will distribute to such Lender its Swingline Participation Amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded and, in the case of principal and interest payments, to reflect such Lender's *pro rata* portion of such payment if such payment is not sufficient to pay the principal of and interest on all Swingline Loans then due); provided, however, that in the event that such payment received by the Swingline Lender is required to be returned, such Lender will return to the Swingline Lender any portion thereof previously distributed to it by the Swingline Lender.

(e) Each Lender's obligation to make the Loans referred to in Section 2.5(b) and to purchase participating interests pursuant to Section 2.5(c) shall be absolute and unconditional and shall not be affected by any circumstance, including (i) any setoff, counterclaim, recoupment, defense or other right that such Lender or the Borrower may have against the Swingline Lender, the Borrower or any other Person for any reason whatsoever, (ii) the occurrence or continuance of a Default or an Event of Default or the failure to satisfy any of the other conditions specified in Section 4, (iii) any adverse change in the condition (financial or otherwise) of the Borrower, (iv) any breach of this Agreement or any other Loan Document by the Borrower or any other Lender or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

2.6 Facility Fees, etc. (a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a facility fee for the period from and including the date hereof to the last day of the Commitment Period, computed at the Facility Fee Rate on the Commitment of such Lender during the period for which payment is made, payable quarterly in arrears on each Fee Payment Date, commencing on the first such date to occur after the date hereof. In addition, if the principal amount of any Loan shall remain outstanding and unpaid after the last day of the Commitment Period, the Borrower agrees to pay to the Administrative Agent, for the account of each Lender, a facility fee for the period from the last day of the Commitment Period until the date on which such amounts are repaid in full, computed at the Facility Fee Rate on such amounts, payable quarterly in arrears on each Fee Payment Date, commencing on the first such date after the last day of the Commitment Period.

(b) The Borrower agrees to pay to the Administrative Agent the fees in the amounts and on the dates as set forth in any written, duly executed fee agreements with the Administrative Agent and to perform any other obligations contained therein.

2.7 Termination or Reduction of Commitments; Extension of Termination Date . (a) The Borrower shall have the right, upon not less than three Business Days' notice to the Administrative Agent, to terminate the Commitments or, from time to time, to reduce the amount of the Commitments; provided that no such termination or reduction of Commitments shall be permitted if, after giving effect thereto and to any prepayments of the Revolving Loans and Swingline Loans made on the effective date thereof, the Total Extensions of Credit would exceed the Total Commitments. Any such reduction shall be in an amount equal to \$1,000,000, or a whole multiple thereof, and shall reduce permanently the Commitments then in effect.

(b) The Borrower may, by written notice to the Administrative Agent (such notice being an “ Extension Notice ”) given (i) no more frequently than once in each calendar year, on not more than on two occasions and (iii) not less than 35 days prior to the applicable Termination Date, request the Lenders to consider an extension of the then applicable Termination Date to a later date not more than 364 days after the then current Termination Date. The Administrative Agent shall promptly transmit any Extension Notice to each Lender. Each Lender shall notify the Administrative Agent whether it wishes to extend the then applicable Termination Date not later than 30 days after the date of such Extension Notice, and any such notice given by a Lender to the Administrative Agent, once given, shall be irrevocable as to such Lender. Any Lender which does not expressly notify the Administrative Agent prior to the expiration of such thirty-day period that it wishes to so extend the then applicable Termination Date shall be deemed to have rejected the Borrower's request for extension of such Termination Date. Lenders consenting to extend the then applicable Termination Date are hereinafter referred to as “ Continuing Lenders ”, and Lenders declining to consent to extend such Termination Date (or Lenders deemed to have so declined) are hereinafter referred to as “ Non-Extending Lenders ”. If the Required Lenders have elected (in their sole and absolute discretion) to so extend the Termination Date, the Administrative Agent shall promptly notify the Borrower of such election by the Required Lenders, and effective on the date which is 30 days after the date of such notice by the Administrative Agent to the Borrower, the Termination Date shall be automatically and immediately so extended with regard to Continuing Lenders. No extension will be permitted hereunder without the consent of the Required Lenders. Upon the delivery of an Extension Notice and upon the extension of the Termination Date pursuant to this Section, the Borrower shall be deemed to have represented and warranted on and as of the date of such Extension Notice and the effective date of such extension, as the case may be, that no Default or Event of Default has occurred and is continuing. Notwithstanding anything contained in this Agreement to the contrary, no Lender shall have any obligation to extend the Termination

Date, and each Lender may at its option, unconditionally and without cause, decline to extend the Termination Date.

(c) If the Termination Date shall have been extended in accordance with this Section, all references herein to the “Termination Date” (except with respect to any Non-Extending Lender) shall refer to the Termination Date as so extended.

(d) If any Lender shall determine (or be deemed to have determined) not to extend the Termination Date as requested by any Extension Notice given by the Borrower pursuant to this Section, the Commitment of such Non-Extending Lender (including the obligations of such Lender under Section 2.5 and 3.4) shall terminate on the Termination Date without giving any effect to such proposed extension, and the Borrower shall on such date pay to the Administrative Agent, for the account of such Non-Extending Lender, the principal amount of, and accrued interest on, such Non-Extending Lender’s Loans, together with any amounts payable to such Lender pursuant to Section 2.17 and any and all fees or other amounts owing to such Non-Extending Lender under this Agreement; provided that if the Borrower has replaced such Non-Extending Lender pursuant to paragraph (e) below then the provisions of such paragraph shall apply. The Total Commitments shall be reduced by the amount of the Commitment of such Non-Extending Lender to the extent the Commitment of such Non-Extending Lender has not been transferred to one or more Continuing Lenders pursuant to paragraph (e) below.

(e) A Non-Extending Lender shall be obligated, at the request of the Borrower and subject to (i) payment by the successor Lender described below to the Administrative Agent for the account of such Non-Extending Lender of the principal amount of, and accrued interest on, such Non-Extending Lender’s Loans, and (ii) payment by the Borrower to such Non-Extending Lender of any amounts payable to such Non-Extending Lender pursuant to Section 2.17 (as if the purchase of such Non-Extending Lender’s Loans constituted a prepayment thereof) and any and all fees or other amounts owing to such Non-Extending Lender under this Agreement, to transfer without recourse, representation, warranty (other than a representation that such Lender has not created an adverse claim on its Loans) or expense to such Non-Extending Lender, at any time prior to the Termination Date applicable to such Non-Extending Lender, all of such Non-Extending Lender’s rights and obligations hereunder to another financial institution or group of financial institutions nominated by the Borrower and willing to participate as a successor Lender in the place of such Non-Extending Lender; provided that, if such transferee is not already a Lender, (1) such transferee satisfies all the requirements of this Agreement, and (2) the Administrative Agent shall have consented to such transfer, which consent shall not be unreasonably withheld or delayed. Each such transferee successor Lender shall be deemed to be a Continuing Lender hereunder in replacement of the transferor Non-Extending Lender and shall enjoy all rights and assume all obligations on the part of such Non-Extending Lender set forth in this Agreement. Each such transfer shall be effected pursuant to an Assignment and Assumption.

(f) If the Termination Date shall have been extended in respect of Continuing Lenders in accordance with this Section, any notice of borrowing pursuant to Section 2.2 or 2.5 specifying a Borrowing Date occurring after the Termination Date applicable to a Non-Extending Lender or requesting an Interest Period extending beyond such date shall (i) have no effect in respect of such Non-Extending Lender and (ii) not specify a requested aggregate principal amount exceeding the aggregate Available Commitments (calculated on the basis of the Commitments of the Continuing Lenders).

(g) At any time after a Lender has become a Defaulting Lender, the Borrower may (i) reduce the Defaulting Lender's Commitment to be equal to the amount of such Defaulting Lender's outstanding Loans (and participations in Swingline Loans) at the time such Lender becomes a Defaulting Lender, by giving notice to such Defaulting Lender and the Administrative Agent (provided that concurrently with such reduction, the Total Commitments shall be reduced by the amount by which such Defaulting Lender's Commitment is reduced) or (ii) terminate in full the Commitment of such Defaulting Lender by giving notice to such Defaulting Lender and the Administrative Agent; *provided* that (1) at the time of any such termination pursuant to clause (ii), no Default or Event of Default exists (or, if a Default or Event of Default exists, the Required Lenders consent to such termination); (2) concurrently with such termination (A) the Total Commitments shall be reduced by the Commitment of such Defaulting Lender (it being understood that the Borrower may not terminate the Commitment of a Defaulting Lender to the extent that, after giving effect to such termination, the Total Extensions of Credit would exceed the Total Commitments) and (B) the Borrower shall pay all amounts owed to such Defaulting Lender hereunder (subject to Section 2.20(c)) less the Borrower's reasonable estimate of the amount (if any) of any breakage costs expected to be incurred by the Borrower as a result of the events or circumstances pursuant to which such Lender became a Defaulting Lender (which estimate shall be conclusive, absent manifest error). The Borrower agrees to return to such Defaulting Lender the excess (if any) of its reasonable estimate of the amount of any breakage costs over the actual amount of such breakage costs. The termination of the Commitment of a Defaulting Lender pursuant to this Section 2.7(g) shall not be deemed to be a waiver of any right that (x) the Borrower, the Administrative Agent or any other Lender may have against such Defaulting Lender or (y) such Defaulting Lender may have against the Borrower based on the estimate described in the preceding sentence.

2.8 Prepayments. (a) The Borrower may at any time and from time to time prepay the Loans, in whole or in part, without premium or penalty, upon irrevocable notice delivered to the Administrative Agent no later than 12:00 Noon, New York City time, three Business Days prior thereto, in the case of Eurodollar Loans, and no later than 12:00 Noon, New York City time, one Business Day prior thereto, in the case of ABR Loans, which notice shall specify the date and amount of prepayment and whether the prepayment is of Eurodollar Loans or ABR Loans; *provided*, that if a Eurodollar Loan is prepaid on any day other than the last day of the Interest Period applicable thereto, the Borrower shall also pay any amounts owing pursuant to Section 2.17. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein, together with (except in the case of Revolving Loans that are ABR Loans and Swingline Loans) accrued interest to such date on the amount prepaid. Partial prepayments of Revolving Loans which shall be in an aggregate principal amount of \$1,000,000 or a whole multiple of \$500,000 in excess thereof. Partial prepayments of Swingline Loans shall be in an aggregate principal amount of \$100,000 or a whole multiple thereof.

(b) If a Lender becomes a Defaulting Lender at a time when Swingline Loans are outstanding and such occurrence results in the existence of Fronting Exposure, then the Borrower shall promptly (and in any event within three Business Days), prepay Loans in an amount sufficient to eliminate such Fronting Exposure. Except for the mandatory nature thereof, any prepayment of Loans pursuant to this Section 2.8(b) shall be subject to the provisions of Section 2.8(a); *provided* that such prepayment may be in the amount needed to eliminate the Fronting Exposure.

2.9 Conversion and Continuation Options. (a) The Borrower may elect from time to time to convert Eurodollar Loans to ABR Loans by giving the Administrative Agent prior irrevocable notice of such election no later than 12:00 Noon, New York City time, on the Business Day preceding the proposed conversion date, provided that any such conversion of Eurodollar Loans may only be made on the last day of an Interest Period with respect thereto. The Borrower may elect from time to time to convert ABR Loans to Eurodollar Loans by giving the Administrative Agent prior irrevocable notice of such election no later than 12:00 Noon, New York City time, on the third Business Day preceding the proposed conversion date (which notice shall specify the length of the initial Interest Period therefor), provided that no ABR Loan may be converted into a Eurodollar Loan when any Event of Default has occurred and is continuing and the Required Lenders have determined in their sole discretion not to permit such conversions. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof.

(b) Any Eurodollar Loan may be continued as such upon the expiration of the then current Interest Period with respect thereto by the Borrower giving irrevocable notice to the Administrative Agent, in accordance with the applicable provisions of the term "Interest Period" set forth in Section 1.1, of the length of the next Interest Period to be applicable to such Loans, provided that no Eurodollar Loan may be continued as such when any Event of Default has occurred and is continuing and the Required Lenders have determined in their sole discretion not to permit such continuations, and provided, further, that if the Borrower shall fail to give any required notice as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso such Loans shall be automatically converted to ABR Loans on the last day of such then expiring Interest Period. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof.

2.10 Limitations on Eurodollar Tranches. Notwithstanding anything to the contrary in this Agreement, all borrowings, conversions and continuations of Eurodollar Loans and all selections of Interest Periods shall be in such amounts and be made pursuant to such elections so that (a) after giving effect thereto, the aggregate principal amount of the Eurodollar Loans comprising each Eurodollar Tranche shall be equal to \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof and (b) no more than 15 Eurodollar Tranches shall be outstanding at any one time.

2.11 Interest Rates and Payment Dates. (a) Each Eurodollar Loan shall bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to the Eurodollar Rate determined for such day plus the Applicable Margin.

(b) Each ABR Loan shall bear interest at a rate per annum equal to the ABR plus the Applicable Margin.

(c) (i) If all or a portion of the principal amount of any Loan shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a default rate per annum equal to in the case of the Loans, the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this Section plus 2%, (ii) if all or a portion of any interest payable on any Loan or any facility fee, or any other fee payable (excluding any expenses or other indemnity) hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a default rate per annum equal to the rate then applicable to ABR Loans plus 2%, in each case, with respect to clauses (i) and (ii) above, from the date of such non-payment until such amount is paid in full (as well after as before judgment). Interest shall be payable in arrears on each Interest Payment Date,

provided that interest accruing pursuant to paragraph (c) of this Section shall be payable from time to time on demand.

2.12 Computation of Interest and Fees . (a) Interest and fees payable pursuant hereto shall be calculated on the basis of a 360-day year for the actual days elapsed, except that, with respect to ABR Loans the rate of interest on which is calculated on the basis of the Base Rate, the interest thereon shall be calculated on the basis of a 365- (or 366-, as the case may be) day year for the actual days elapsed. The Administrative Agent shall as soon as practicable notify the Borrower and the relevant Lenders of each determination of a Eurodollar Rate. Any change in the interest rate on a Loan resulting from a change in the ABR or the Eurocurrency Reserve Requirements shall become effective as of the opening of business on the day on which such change becomes effective. The Administrative Agent shall as soon as practicable notify the Borrower and the relevant Lenders of the effective date and the amount of each such change in interest rate.

(b) Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall constitute prima facie evidence of such amounts. The Administrative Agent shall, at the request of the Borrower or any Lender, deliver to the Borrower or such Lender a statement showing the quotations used by the Administrative Agent in determining any interest rate pursuant to Section 2.11(a).

2.13 Inability to Determine Interest Rate . If prior to the first day of any Interest Period:

(a) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period, or

(b) the Administrative Agent shall have received notice from the Required Lenders that the Eurodollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders (as conclusively certified by such Lenders) of making or maintaining their affected Loans during such Interest Period,

the Administrative Agent shall give telecopy or telephonic notice thereof to the Borrower and the relevant Lenders as soon as practicable thereafter. If such notice is given (x) any Eurodollar Loans requested to be made on the first day of such Interest Period shall be made as ABR Loans, (y) any Loans that were to have been converted on the first day of such Interest Period to Eurodollar Loans shall be continued as ABR Loans and (z) any outstanding Eurodollar Loans shall be converted, on the last day of the then-current Interest Period, to ABR Loans. Until such notice has been withdrawn by the Administrative Agent, no further Eurodollar Loans shall be made or continued as such, nor shall the Borrower have the right to convert Loans to Eurodollar Loans.

2.14 Pro Rata Treatment and Payments; Notes . (a) Each borrowing by the Borrower from the Lenders hereunder, each payment by the Borrower on account of any commitment fee and any reduction of the Commitments of the Lenders shall be made pro rata according to the respective Percentages of the Lenders.

(b) Each payment (including each prepayment) by the Borrower on account of principal of and interest on the Revolving Loans shall be made pro rata according to the respective outstanding principal amounts of the Revolving Loans then held by the Lenders.

(c) Notwithstanding anything to the contrary herein, all payments (including prepayments) to be made by the Borrower hereunder, whether on account of principal, interest, fees or otherwise, shall be made without setoff or counterclaim and shall be made prior to 4:00 P.M., New York City time, on the due date thereof to the Administrative Agent, for the account of the Lenders at the Funding Office, in Dollars and in immediately available funds. The Administrative Agent shall distribute such payments to the Lenders promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurodollar Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day. If any payment on a Eurodollar Loan becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Business Day. In the case of any extension of any payment of principal pursuant to the preceding two sentences, interest thereon shall be payable at the then applicable rate during such extension.

(d) Unless the Administrative Agent shall have been notified in writing by any Lender prior to a borrowing that such Lender will not make the amount that would constitute its share of such borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender is making such amount available to the Administrative Agent, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If such amount is not made available to the Administrative Agent by the required time on the Borrowing Date therefor, such Lender shall pay to the Administrative Agent, on demand, such amount with interest thereon, at a rate equal to the greater of (i) the Federal Funds Effective Rate and (ii) a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, for the period until such Lender makes such amount immediately available to the Administrative Agent. A certificate of the Administrative Agent submitted to any Lender with respect to any amounts owing under this paragraph shall be conclusive in the absence of manifest error. If such Lender's share of such borrowing is not made available to the Administrative Agent by such Lender within three Business Days after such Borrowing Date, the Administrative Agent shall also be entitled to recover such amount with interest thereon at the rate per annum applicable to ABR Loans from the Borrower within 30 days after written demand therefor.

(e) Unless the Administrative Agent shall have been notified in writing by the Borrower prior to the date of any payment due to be made by the Borrower hereunder that the Borrower will not make such payment to the Administrative Agent, the Administrative Agent may assume that the Borrower is making such payment, and the Administrative Agent may, but shall not be required to, in reliance upon such assumption, make available to the Lenders their respective *pro rata* shares of a corresponding amount. If such payment is not made to the Administrative Agent by the Borrower within three Business Days after such due date, the Administrative Agent shall be entitled to recover, on demand, from each Lender to which any amount which was made available pursuant to the preceding sentence, such amount with interest thereon at the rate per annum equal to the daily average Federal Funds Effective Rate. Nothing herein shall be deemed to limit the rights of the Administrative Agent or any Lender against the Borrower.

(f) The Borrower agrees that, upon the request to the Administrative Agent by any Lender, the Borrower will promptly execute and deliver to such Lender a promissory note (a "Note") of the Borrower evidencing any Revolving Loans of such Lender, substantially in the form of Exhibit H, with appropriate insertions as to date and principal amount; provided, that delivery of

Notes shall not be a condition precedent to the occurrence of the Effective Date or the making of Loans on the Effective Date.

2.15 Requirements of Law . (a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Lender to any tax of any kind whatsoever with respect to this Agreement or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for Non-Excluded Taxes and Other Taxes covered by Section 2.16 and net income taxes and franchise taxes imposed in lieu of net income taxes);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender that is not otherwise included in the determination of the Eurodollar Rate, which requirements are generally applicable to loans made by such Lender; or

(iii) shall impose on such Lender any other condition that is generally applicable to loans made by such Lender;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount that such Lender deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans, or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Borrower shall promptly pay such Lender, within ten Business Days after its demand, any additional amounts necessary to compensate such Lender for such increased cost or reduced amount receivable. If any Lender becomes entitled to claim any additional amounts pursuant to this paragraph, it shall promptly notify the Borrower (with a copy to the Administrative Agent) of the event by reason of which it has become so entitled; provided, however, that no Lender shall be entitled to demand such compensation more than 90 days following (x) the last day of the Interest Period in respect of which such demand is made or (y) the repayment of the Loan or Swingline Loan in respect of which such demand is made.

(b) If any Lender shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, after submission by such Lender to the Borrower (with a copy to the Administrative Agent) of a written request therefor, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender or such corporation for such reduction.

(c) A certificate as to any additional amounts payable pursuant to this Section submitted by any Lender to the Borrower (with a copy to the Administrative Agent) shall constitute

prima facie evidence of such costs or amounts. Notwithstanding anything to the contrary in this Section, the Borrower shall not be required to compensate a Lender pursuant to this Section for any amounts incurred more than six months prior to the date that such Lender notifies the Borrower of such Lender's intention to claim compensation therefor; provided that, if the circumstances giving rise to such claim have a retroactive effect, then such six-month period shall be extended to include the period of such retroactive effect not to exceed twelve months. The obligations of the Borrower pursuant to this Section shall survive for 90 days after the termination of this Agreement and the payment of the Loans and all other amounts then due and payable hereunder.

2.16 Taxes . (a) All payments made by the Borrower under this Agreement shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding (i) net income taxes and franchise taxes (imposed in lieu of net income taxes) imposed on the Administrative Agent or any Lender as a result of a present or former connection between the Administrative Agent or such Lender and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Administrative Agent or such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any other Loan Document) and (ii) any branch profits tax imposed by the United States. If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") or Other Taxes are required to be withheld from any amounts payable to the Administrative Agent or any Lender hereunder, the amounts so payable to the Administrative Agent or such Lender shall be increased to the extent necessary to yield to the Administrative Agent or such Lender (after payment of all Non-Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement, provided, however, that the Borrower shall not be required to increase any such amounts payable to any Lender with respect to any Non-Excluded Taxes (i) that are attributable to such Lender's failure to comply with the requirements of paragraph (d) or (e) of this Section or (ii) that are United States withholding taxes imposed on amounts payable to such Lender at the time such Lender becomes a party to this Agreement, except to the extent that such Lender's assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such Non-Excluded Taxes pursuant to this paragraph.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Whenever any Non-Excluded Taxes or Other Taxes are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Administrative Agent for its own account or for the account of the relevant Lender, as the case may be, a certified copy of any original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Non-Excluded Taxes or Other Taxes when due to the appropriate taxing authority, the Borrower shall indemnify the Administrative Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Lender as a result of any such failure.

(d) Each Lender (or Transferee) that is not a "U.S. Person" as defined in Section 7701(a)(30) of the Code (a "Non-U.S. Lender") shall deliver to the Borrower and the Administrative Agent (or, in the case of a Participant, to the Lender from which the related participation shall have been purchased) two copies of either U.S. Internal Revenue Service Form

W-8BEN or Form W-8ECI, or, in the case of a Non U.S. Lender claiming exemption from U.S. federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of “portfolio interest”, a statement substantially in the form of Exhibit G and a Form W-8BEN, or any subsequent versions thereof or successors thereto, properly completed and duly executed by such Non U.S. Lender claiming complete exemption from, or a reduced rate of, U.S. federal withholding tax on all payments by the Borrower under this Agreement and the other Loan Documents. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement (or, in the case of any Participant, on or before the date such Participant purchases the related participation). In addition, each Non U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non U.S. Lender. Each Non-U.S. Lender shall promptly notify the Borrower at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Borrower (or any other form of certification adopted by the U.S. taxing authorities for such purpose). Notwithstanding any other provision of this paragraph, a Non U.S. Lender shall not be required to deliver any form pursuant to this paragraph that such Non U.S. Lender is not legally able to deliver; provided, however, if any Non-U.S. Lender fails to file forms with the Borrower and the Administrative Agent (or, in the case of a Participant, with the Lender from which the related participation was purchased) on or before the date the Non-U.S. Lender becomes a party to this Agreement (or, in the case of a Participant, on or before the date such Participant purchased the related participation) entitling the Non-U.S. Lender to a complete exemption from United States withholding taxes at such time, such Non-U.S. Lender shall not be entitled to receive any increased payments from the Borrower with respect to United States withholding taxes under paragraph (a) of this Section, except to the extent that the Non-U.S. Lender’s assignor (if any) was entitled, at the time of the assignment to the Non-U.S. Lender, to receive additional amounts from the Borrower with respect to United States withholding taxes.

(e) A Lender that is entitled to an exemption from or reduction of non-U.S. withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate, provided that such Lender is legally entitled to complete, execute and deliver such documentation and in such Lender’s judgment such completion, execution or submission would not materially prejudice the legal position of such Lender.

(f) If the Administrative Agent or any Lender determines, in its sole discretion, that it has received a refund of any Non-Excluded Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid amounts pursuant to this Section 2.16, it shall pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 2.16 with respect to the Non-Excluded Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent or such Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided, that the Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such Governmental Authority. This paragraph shall not be construed to require the Administrative Agent or any

Lender to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person.

(g) The agreements in this Section shall survive for one year after the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.17 Indemnity. The Borrower agrees to indemnify each Lender for, and to hold each Lender harmless from, any loss (other than the loss of Applicable Margin) or expense that such Lender may sustain or incur as a consequence of (a) default by the Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (b) default by the Borrower in making any prepayment of or conversion from Eurodollar Loans after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (c) the making of a prepayment of Eurodollar Loans on a day that is not the last day of an Interest Period with respect thereto. A certificate as to any amounts payable pursuant to this Section submitted to the Borrower by any Lender shall be conclusive in the absence of manifest error. This covenant shall survive for 90 days after the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

2.18 Change of Lending Office. Each Lender agrees that, upon the occurrence of any event giving rise to the operation of Section 2.15 or 2.16(a) with respect to such Lender, it will, if requested by the Borrower, use reasonable efforts (subject to overall policy considerations of such Lender) to designate another lending office for any Loans affected by such event with the object of avoiding the consequences of such event; provided, that such designation is made on terms that, in the sole but reasonable judgment of such Lender, cause such Lender and its lending office(s) to suffer no unreimbursed economic disadvantage or any legal or regulatory disadvantage, and provided, further, that nothing in this Section shall affect or postpone any of the obligations of the Borrower or the rights of any Lender pursuant to Section 2.15 or 2.16(a).

2.19 Replacement of Lenders. The Borrower shall be permitted to replace any Lender that (a) requests (on its behalf or any of its Participants) reimbursement for amounts owing pursuant to Section 2.15 or 2.16(a) or (b) becomes a Defaulting Lender, with a replacement financial institution; provided that (i) such replacement does not conflict with any Requirement of Law, (ii) no Event of Default shall have occurred and be continuing at the time of such replacement, (iii) prior to any such replacement, such Lender shall have taken no action under Section 2.18 which eliminates the continued need for payment of amounts owing pursuant to Section 2.15 or 2.16(a), (iv) the replacement financial institution shall purchase, at par, all Loans and other amounts owing to such replaced Lender on or prior to the date of replacement, (v) the Borrower shall be liable to such replaced Lender under Section 2.17 if any Eurodollar Loan owing to such replaced Lender shall be purchased other than on the last day of the Interest Period relating thereto, (vi) the replacement financial institution, if not already a Lender, shall be reasonably satisfactory to the Administrative Agent, (vii) the replaced Lender shall be obligated to make such replacement in accordance with the provisions of Section 9.6 (provided that the Borrower shall be obligated to pay the registration and processing fee referred to therein), (viii) until such time as such replacement shall be consummated, the Borrower shall pay all additional amounts (if any) required pursuant to Section 2.15 or 2.16(a), as the case may be, and (ix) any such replacement shall not be deemed to be a waiver of any rights that the Borrower, the Administrative Agent or any other Lender shall have against the replaced Lender.

2.20 Defaulting Lenders . Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as that Lender is no longer a Defaulting Lender, to the extent permitted by applicable law:

(a) any payment of principal or other amounts (other than those described in Section 2.20(b)) received by the Administrative Agent for the account of that Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Section 7 or otherwise, and including any amounts made available to the Administrative Agent by that Defaulting Lender pursuant to Section 9.7), shall be applied at such time or times as may be determined by the Administrative Agent as follows: *first* , to the payment of any amounts owing by that Defaulting Lender to the Administrative Agent hereunder; *second* , to the payment on a pro rata basis of any amounts owing by that Defaulting Lender to the Swingline Lender hereunder; *third* , if so determined by the Administrative Agent or requested by the Swingline Lender, to be held as cash collateral for future funding obligations of that Defaulting Lender of any participation in any Swingline Loan; *fourth* , as the Borrower may request (so long as no Default or Event of Default exists), to the funding of any Loan in respect of which that Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent; *fifth* , if so determined by the Borrower with the consent of the Administrative Agent, not to be unreasonably withheld, to be held in a non-interest bearing deposit account and released in order to satisfy obligations of that Defaulting Lender to fund Loans under this Agreement; *sixth* , to the payment of any amounts owing to the Lenders or the Swingline Lender as a result of any judgment of a court of competent jurisdiction obtained by any Lender or the Swingline Lender against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; *seventh* , so long as no Default or Event of Default exists, to the payment of any amounts owing to the Borrower as a result of any judgment of a court of competent jurisdiction obtained by the Borrower against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; and *eighth* , to that Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided that if such payment is a payment of the principal amount of any Loans in respect of which that Defaulting Lender has not fully funded its appropriate share such payment shall be applied solely to pay the Loans of all non-Defaulting Lenders on a pro rata basis prior to being applied to the payment of any Loans of that Defaulting Lender. Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post cash collateral pursuant to this Section 2.20(a) shall be deemed paid to and redirected by that Defaulting Lender, and each Lender irrevocably consents hereto;

(b) that Defaulting Lender shall be entitled to receive (i) any facility fee pursuant to Section 2.6(a) for any period during which that Lender is a Defaulting Lender only to the extent allocable to the sum of (1) the outstanding principal amount of Loans funded by it and (2) the principal amount of the Swingline Loans for which it has provided cash collateral pursuant to 2.20(a) (and the Borrower shall (x) be required to pay to the Swingline Lender, as applicable, the amount of such fee allocable to its fronting of Extensions of Credit arising from that Defaulting Lender and (y) not be required to pay the remaining amount of such fee that otherwise would have been required to have been paid to that Defaulting Lender) and (ii) interest on Loans funded by such Lender prior to the period in which such Lender became a Defaulting Lender or during the period in which such Lender is a Defaulting Lender;

(c) during any period in which there is a Defaulting Lender, for purposes of computing the amount of the obligation of each non-Defaulting Lender to acquire, refinance or

fund participations in Swingline Loans pursuant to Section 2.5, the Percentage of each non-Defaulting Lender shall be computed without giving effect to the Commitment of that Defaulting Lender; *provided*, that, (i) each such reallocation shall be given effect only if, at the date the applicable Lender becomes a Defaulting Lender, no Default or Event of Default exists; and (ii) the aggregate obligation of each non-Defaulting Lender to acquire, refinance or fund participations in Swingline Loans shall not exceed the positive difference, if any, of (1) the Commitment of that non-Defaulting Lender minus (2) the aggregate outstanding Loans of that Lender; and

(d) that Defaulting Lender's right to approve or disapprove any amendment, supplement, modification, waiver or consent with respect to this Agreement shall be restricted as set forth in Section 9.1.

If the Borrower, the Administrative Agent and Swingline Lender reasonably determine in writing that a Defaulting Lender should no longer be deemed to be a Defaulting Lender, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein, that Lender will, to the extent applicable, purchase that portion of outstanding Loans of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Loans and funded and unfunded participations in Swingline Loans to be held on a pro rata basis by the Lenders in accordance with their Percentages (without giving effect to Section 2.20(c)), whereupon that Lender will cease to be a Defaulting Lender; *provided* that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrower while that Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

Cash collateral held by the Administrative Agent to reduce Fronting Exposure shall be released to the applicable Lender promptly following (i) the elimination of the applicable Fronting Exposure or other obligations giving rise thereto (including by the termination of Defaulting Lender status of the applicable Lender (or, as appropriate, its assignee following compliance with Section 9.6)); (ii) the Administrative Agent's good faith determination that there exists excess cash collateral; and (iii) the termination of the Commitment Period and the repayment in full of all outstanding Loans.

SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent and the Lenders to enter into this Agreement and to make the Loans, the Borrower hereby represents and warrants to the Administrative Agent and each Lender, on the Effective Date and, except as provided in Section 4.2(a), on the date of each Credit Event hereunder after the Effective Date, that:

3.1 Financial Condition. The audited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as of December 31, 2009, and the related consolidated statement of operations and cash flows for the fiscal year ended on such date, reported on by Deloitte & Touche LLP, present fairly in all material respects the consolidated financial condition of the Borrower and its consolidated Subsidiaries as of such date, and the consolidated results of its operations and its consolidated cash flows for the respective fiscal year then ended. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved.

3.2 No Change. Since December 31, 2009, there has been no development or event that has had or could reasonably be expected to have a Material Adverse Effect, except as disclosed in the Specified Exchange Act Filings.

3.3 Existence; Compliance with Law. Each of the Borrower and its Significant Subsidiaries (a) is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, (b) has the corporate power and corporate authority to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified as a foreign corporation or other organization and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification except to the extent that the failure to so qualify could not reasonably be expected to have a Material Adverse Effect and (d) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

3.4 Power; Authorization; Enforceable Obligations. The Borrower has the corporate power and corporate authority to make, deliver and perform the Loan Documents and to obtain extensions of credit hereunder. The Borrower has taken all necessary corporate action to authorize the execution, delivery and performance of the Loan Documents and to authorize the extensions of credit on the terms and conditions of this Agreement. No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the extensions of credit hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement or any of the Loan Documents (other than the Indenture), except (i) consents, authorizations, filings and notices which have been obtained or made and are in full force and effect, (ii) any consent, authorization or filing that may be required in the future the failure of which to make or obtain could not reasonably be expected to have a Material Adverse Effect and (iii) applicable regulatory requirements (including the approval of the CPUC) prior to foreclosure under the Indenture. This Agreement has been, and each other Loan Document upon execution and delivery will be, duly executed and delivered. This Agreement constitutes, and each other Loan Document upon execution will constitute, a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except as enforceability may be limited by (x) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally, laws of general application related to the enforceability of securities secured by real estate and by general equitable principles (whether enforcement is sought by proceedings in equity or at law) and (y) applicable regulatory requirements (including the approval of the CPUC) prior to foreclosure under the Indenture.

3.5 No Legal Bar. The execution, delivery and performance of this Agreement and the other Loan Documents, the borrowings hereunder and the use of the proceeds thereof will not violate in any material respect any Requirement of Law or any Contractual Obligation of the Borrower or any of its Significant Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues pursuant to any Requirement of Law or any such Contractual Obligation (other than the Liens created by the Indenture).

3.6 Litigation. (a) No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened in writing by or against the Borrower or any of its Significant Subsidiaries or against any of their material respective properties or revenues with respect to any of the Loan Documents.

(b) No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened in writing by or against the Borrower or any of its Significant Subsidiaries or against any of their material respective properties or revenues, except as disclosed in the Specified Exchange Act Filings, that could reasonably be expected to have a Material Adverse Effect.

3.7 No Default. No Default or Event of Default has occurred and is continuing.

3.8 Taxes. The Borrower and each of its Significant Subsidiaries has filed or caused to be filed all Federal and state returns of income and franchise taxes imposed in lieu of net income taxes and all other material tax returns that are required to be filed and has paid all taxes shown to be due and payable on said returns or with respect to any claims or assessments for taxes made against it or any of its property by any Governmental Authority (other than (i) any amounts the validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or any of its Significant Subsidiaries, as applicable, and (ii) claims which could not reasonably be expected to have a Material Adverse Effect). No tax Liens have been filed against the Borrower or any of its Significant Subsidiaries other than (A) Liens for taxes which are not delinquent or (B) Liens for taxes which are being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or any of its Significant Subsidiaries, as applicable.

3.9 Federal Regulations. No part of the proceeds of any Loans, and no other extensions of credit hereunder, will be used for “buying” or “carrying” any “margin stock” within the respective meanings of each of the quoted terms under Regulation U as now and from time to time hereafter in effect or for any purpose that violates the provisions of the Regulations of the Board.

3.10 ERISA. No Reportable Event has occurred during the five year period prior to the date on which this representation is made or deemed made with respect to any Plan, and each Plan has complied with the applicable provisions of ERISA and the Code, except, in each case, to the extent that any such Reportable Event or failure to comply with the applicable provisions of ERISA or the Code could not reasonably be expected to result in a Material Adverse Effect. During the five year period prior to the date on which this representation is made or deemed made, there has been no (i) failure to make a required contribution to any Plan that would result in the imposition of a lien or other encumbrance or the provision of security under Section 430 of the Code or Section 303 or 4068 of ERISA, or the arising of such a lien or encumbrance; or (ii) “unpaid minimum required contribution” or “accumulated funding deficiency” (as defined or otherwise set forth in Section 4971 of the Code or Part 3 of Subtitle B of Title I of ERISA), whether or not waived, except, in each case, to the extent that such event could not reasonably be expected to result in a Material Adverse Effect. No termination of a Single Employer Plan has occurred, and no Lien in favor of the PBGC or a Plan has arisen, during such five-year period. The present value of all accrued benefits under each Single Employer Plan (based on those assumptions used to fund such Plans) did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Plan allocable to such accrued benefits, except as could not reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any Commonly Controlled Entity has had a complete or partial withdrawal from any Multiemployer Plan during the five year period prior to the date on which this representation is made or deemed made that has resulted or could reasonably be expected to result in a material liability under ERISA, and neither the Borrower nor any Commonly Controlled Entity would become subject to any liability under ERISA if the Borrower or any such Commonly Controlled Entity

were to withdraw completely from all Multiemployer Plans as of the valuation date most closely preceding the date on which this representation is made or deemed made, except as could not reasonably be expected to result in a Material Adverse Effect. No such Multiemployer Plan is in Reorganization or Insolvent.

3.11 Investment Company Act; Other Regulations. The Borrower is not an “investment company”, or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended. On the date hereof, the Borrower is not subject to regulation under any Requirement of Law (other than (a) Regulation X of the Board and (b) Sections 817-830, and Sections 701 and 851 of the California Public Utilities Code) that limits its ability to incur Indebtedness under this Agreement.

3.12 Use of Proceeds. The proceeds of the Revolving Loans and the Swingline Loans shall be used for general corporate purposes, including commercial paper back-up and to support liquidity requirements associated with the Borrower’s energy procurement hedging activities.

3.13 Environmental Matters. Except as disclosed in the Specified Exchange Act Filings, the Borrower and its Significant Subsidiaries do not have liabilities under Environmental Laws or relating to Materials of Environmental Concern that would reasonably be expected to have a Material Adverse Effect, and, to the knowledge of the Borrower, there are no facts, circumstances or conditions that could reasonably be expected to give rise to such liabilities.

3.14 Regulatory Matters. Solely by virtue of the execution, delivery and performance of, or the consummation of the transactions contemplated by this Agreement, no Lender shall be or become subject to regulation (a) under the FPA or (b) as a “public utility” or “public service corporation” or the equivalent under any Requirement of Law.

SECTION 4. CONDITIONS PRECEDENT

4.1 Conditions to the Effective Date. The occurrence of the Effective Date and the effectiveness of this Agreement is subject to the satisfaction of the following conditions precedent on or before June 30, 2010:

(a) Credit Agreement. The Administrative Agent shall have received this Agreement, executed and delivered by the Administrative Agent, the Borrower and each Person listed on Schedule 1.1A.

(b) Consents and Approvals. All governmental and third party consents and approvals necessary in connection with this Agreement and the other Loan Documents and the transactions contemplated hereby shall have been obtained and be in full force and effect; and the Administrative Agent shall have received a certificate of a Responsible Officer to the foregoing effect.

(c) Fees. The Lenders, the Arrangers and the Administrative Agent shall have received all fees required to be paid, and all expenses for which invoices have been presented (including the reasonable fees and expenses of legal counsel), on or before the Effective Date.

(d) Closing Certificate; Certified Articles of Incorporation; Good Standing Certificates. The Administrative Agent shall have received (i) a certificate of the Borrower, dated the Effective Date, substantially in the form of Exhibit D, with appropriate insertions and

attachments, including the articles of incorporation of the Borrower certified by the Secretary of State of the State of California, and (ii) a good standing certificate for the Borrower from the Secretary of State of the State of California; such closing certificate shall contain a confirmation by the Borrower that the conditions precedent set forth in this Section 4.1 have been satisfied.

(e) Legal Opinion . The Administrative Agent shall have received the legal opinion of Orrick, Herrington & Sutcliffe LLP, counsel to the Borrower, substantially in the form of Exhibit F.

(f) Representations and Warranties . Each of the representations and warranties made by the Borrower in this Agreement that does not contain a materiality qualification shall be true and correct in all material respects on and as of the Effective Date, and each of the representations and warranties made by the Borrower in this Agreement that contains a materiality qualification shall be true and correct on and as of the Effective Date (or, to the extent such representations and warranties specifically relate to an earlier date, that such representations and warranties were true and correct in all material respects, or true and correct, as the case may be, as of such earlier date).

(g) No Default . No Default or Event of Default shall have occurred and be continuing.

4.2 Conditions to Each Credit Event . The agreement of each Lender to make any Loan hereunder (a “ Credit Event ”), on any date (including any Credit Event to occur on the Effective Date) is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties . Each of the representations and warranties made by the Borrower in this Agreement that does not contain a materiality qualification (other than, with respect to any Credit Event after the Effective Date, the representations and warranties set forth in Section 3.2, 3.6(b) and 3.13) shall be true and correct in all material respects on and as of the date of such Credit Event as if made on and as of such date, and each of the representations and warranties made by the Borrower in this Agreement that contains a materiality qualification (other than, with respect to any Credit Event after the Effective Date, the representations and warranties set forth in Sections 3.2, 3.6(b) and 3.13) shall be true and correct on and as of such date (or, to the extent such representations and warranties specifically relate to an earlier date, that such representations and warranties were true and correct in all material respects, or true and correct, as the case may be, as of such earlier date).

(b) No Default . No Default or Event of Default shall have occurred and be continuing on the date of such Credit Event or after giving effect to the Credit Event requested to be made on such date.

Each borrowing of Loans hereunder shall constitute a representation and warranty by the Borrower as of the date of such Credit Event that the conditions contained in this Section 4.2 have been satisfied.

SECTION 5. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, or any Loan, any interest on any Loan or any fee payable to any Lender or the Administrative Agent hereunder remains outstanding, or any other amount then due and payable is owing to any Lender or the Administrative Agent hereunder, the Borrower shall and, with respect to Sections 5.3 and 5.6(b), shall cause its Significant Subsidiaries to:

5.1 Financial Statements. Furnish to the Administrative Agent with a copy for each Lender, and the Administrative Agent shall deliver to each Lender:

(a) as soon as available, but in any event within 120 days after the end of each fiscal year of the Borrower, a copy of the audited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such year and the related audited consolidated statements of operations and cash flows for such year, setting forth in each case in comparative form the figures for the previous year, reported on without a “going concern” or like qualification or exception, or qualification arising out of the scope of the audit, by Deloitte & Touche LLP or other independent certified public accountants of nationally recognized standing; and

(b) as soon as available, but in any event not later than 60 days after the end of each of the first three quarterly periods of each fiscal year of the Borrower, the unaudited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such quarter and the related unaudited consolidated statements of operations and cash flows for such quarter and the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous year, certified by a Responsible Officer as being fairly stated in all material respects (subject to normal year-end audit adjustments).

All such financial statements shall be complete and correct in all material respects and shall be prepared in reasonable detail and in accordance with GAAP applied (except as approved by such accountants or officer, as the case may be, and disclosed in reasonable detail therein) consistently throughout the periods reflected therein and with prior periods. The Borrower shall be deemed to have delivered the financial statements required to be delivered pursuant to this Section 5.1 upon the filing of such financial statements by the Borrower through the SEC’s EDGAR system or the publication by the Borrower of such financial statements on its website.

5.2 Certificates; Other Information. Furnish to the Administrative Agent with a copy for each Lender (or, in the case of clause (c), the relevant Lender), and the Administrative Agent shall deliver to each Lender:

(a) within two days after the delivery of any financial statements pursuant to Section 5.1, (i) a certificate of a Responsible Officer stating that such Responsible Officer has obtained no knowledge of any Default or Event of Default except as specified in such certificate and (ii) in the case of quarterly or annual financial statements, a Compliance Certificate, substantially in the form of Exhibit C, containing all information and calculations reasonably necessary for determining compliance by the Borrower with the provisions of this Agreement referred to therein as of the last day of the fiscal quarter or fiscal year of the Borrower, as the case may be;

(b) within five days after the same are sent, copies of all financial statements and reports that the Borrower sends to the holders of any class of its debt securities or public equity securities, provided that, such financial statements and reports shall be deemed to have delivered upon the filing of such financial statements and reports by the Borrower through the SEC’s EDGAR system or publication by the Borrower of such financial statements and reports on its website; and

(c) promptly, such additional financial and other information as any Lender, through the Administrative Agent, may from time to time reasonably request.

5.3 Payment of Taxes . Pay all taxes due and payable or any other tax assessments made against the Borrower or any of its Significant Subsidiaries or any of their respective property by any Governmental Authority (other than (i) any amounts the validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or any of its Significant Subsidiaries, as applicable or (ii) where the failure to effect such payment could not reasonably be expected to have a Material Adverse Effect).

5.4 Maintenance of Existence; Compliance . (a)(i) Preserve, renew and keep in full force and effect its organizational existence and (ii) take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business, except, in each case, as otherwise permitted by Section 6.3 and except, in the case of clause (ii) above, to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; (b) comply with all Contractual Obligations except to the extent that failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect and (c) comply with all Requirements of Law except for any Requirements of Law being contested in good faith by appropriate proceedings and except to the extent that failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.5 Maintenance of Property; Insurance . (a) Keep all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted, except to the extent that failure to do so could not, in the aggregate, reasonably be expected to have a Material Adverse Effect, and (b) maintain with financially sound and reputable insurance companies insurance on all its material property in at least such amounts and against at least such risks as are usually insured against in the same general area by companies engaged in the same or a similar business of comparable size and financial strength and owning similar properties in the same general areas in which the Borrower operates, which may include self-insurance, if determined by the Borrower to be reasonably prudent.

5.6 Inspection of Property; Books and Records; Discussions . (a) Keep proper books of records and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities and (b) unless a Default or Event of Default has occurred and is continuing, not more than once a year and after at least five Business Days' notice, (i) permit representatives of any Lender to visit and inspect any of its properties and examine and make abstracts from any of its books and records at any reasonable time to discuss the business, operations, properties and financial and other condition of the Borrower and its Significant Subsidiaries with officers and employees of the Borrower and its Significant Subsidiaries and (ii) use commercially reasonable efforts to provide for the Lenders (in the presence of representatives of the Borrower) to meet with the independent certified public accountants of the Borrower and its Subsidiaries; provided , that any such visits or inspections shall be subject to such conditions as the Borrower and each of its Significant Subsidiaries shall deem necessary based on reasonable considerations of safety and security; and provided , further , that neither the Borrower nor any Significant Subsidiary shall be required to disclose to any Lender or its agents or representatives any information which is subject to the attorney-client privilege or attorney work-product privilege properly asserted by the applicable Person to prevent the loss of such privilege in connection with such information or which is prevented from disclosure pursuant to a confidentiality agreement with third parties.

5.7 Notices . Promptly give notice to the Administrative Agent with a copy for each Lender of, and the Administrative Agent shall deliver such notice to each Lender:

(a) when known to a Responsible Officer, the occurrence of any Default or Event of Default;

(b) any change in the Rating issued by either S&P or Moody's; and

(c) the following events, as soon as possible and in any event within 30 days after the Borrower knows thereof: (i) the occurrence of any Reportable Event with respect to any Plan which has not been waived, a failure to make any required minimum contribution to a Plan under Section 412 or 430 of the Code, the creation of any Lien in favor of the PBGC with respect to a Plan or any withdrawal by the Borrower or any Commonly Controlled Entity from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (ii) the institution of proceedings or the taking of any other material action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the termination, Reorganization or Insolvency of, any Plan.

5.8 Maintenance of Licenses, etc. Maintain in full force and effect any authorization, consent, license or approval of any Governmental Authority necessary for the conduct of the Borrower's business as now conducted by it or necessary in connection with this Agreement, except to the extent the failure to do so could not reasonably be expected to have a Material Adverse Effect.

SECTION 6. NEGATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, or any Loan, or any interest on any Loan or any fee payable to any Lender or the Administrative Agent hereunder remains outstanding, or any other amount then due and payable is owing to any Lender or the Administrative Agent hereunder, the Borrower shall not and, with respect to Section 6.2, shall not permit its Significant Subsidiaries to:

6.1 Consolidated Capitalization Ratio. Permit the Consolidated Capitalization Ratio on the last day of any fiscal quarter, from and after the last day of the first fiscal quarter ending after the Effective Date, to exceed 0.65 to 1.00.

6.2 Liens. Create, incur, assume or suffer to exist any Lien upon any assets of the Borrower or any Significant Subsidiary, whether now owned or hereafter acquired, except for (i) Liens securing the Borrower's obligations to the Administrative Agent and the Lenders under this Agreement and the other Loan Documents and (ii) Liens permitted by the Indenture.

6.3 Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or Dispose of all or substantially all of its property or business (including, without limitation, rental equipment or leasehold interests and excluding the sale or transfer of any accounts receivable or of any amounts that are accrued and recorded in a regulatory account for collections by the Borrower, in each case, in connection with a securitization transaction), except that the Borrower may be merged, consolidated or amalgamated with another Person or Dispose of all or substantially all of its property or business so long as, after giving effect to such transaction, (a) no Default or Event of Default shall have occurred and be continuing, (b) either (i) the Borrower is the continuing or surviving corporation of such merger, consolidation or amalgamation or (ii) the continuing or surviving corporation of such merger, consolidation or amalgamation, if not the Borrower or the purchaser, shall have assumed all obligations of the Borrower under the Loan Documents pursuant to arrangements reasonably satisfactory to the Administrative

Agent and (c) the ratings by Moody's and S&P of the continuing or surviving corporation's or purchaser's senior, unsecured, non credit-enhanced debt shall be at least the higher of (1) Baa3 from Moody's and BBB- from S&P and (2) the ratings by such rating agencies of the Borrower's senior, unsecured, non credit-enhanced debt in effect before the earlier of the occurrence or the public announcement of such event.

SECTION 7. EVENTS OF DEFAULT

If any of the following events shall occur and be continuing on or after the Effective Date:

(a) the Borrower shall fail to pay any principal of any Loan when due in accordance with the terms hereof; or the Borrower shall fail to pay any interest on any Loan, or any other amount payable hereunder or under any other Loan Document, within five Business Days after any such interest or other amount becomes due in accordance with the terms hereof; or

(b) any representation or warranty made or deemed made by the Borrower herein or in any other Loan Document or that is contained in any certificate, document or financial or other statement furnished by it at any time under or in connection with this Agreement or any such other Loan Document shall prove to have been inaccurate in any material respect on or as of the date made or deemed made, unless, as of any date of determination, the facts or circumstances to which such representation or warranty relates have changed with the result that such representation or warranty is true and correct in all material respects on such date; or

(c) the Borrower shall default in the observance or performance of any agreement contained in Section 6.1 or Section 6.3 of this Agreement; or

(d) the Borrower shall default in the observance or performance of any other agreement contained in this Agreement or any other Loan Document (other than as provided in paragraphs (a) through (c) of this Section), and such default shall continue unremedied for a period of 30 days after notice to the Borrower from the Administrative Agent at the request of the Required Lenders; or

(e) the Borrower or any of its Significant Subsidiaries shall (i) default in making any payment of any principal of any Indebtedness (including any Guarantee Obligation, but excluding the Loans) on the due date with respect thereto (after giving effect to any period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created); or (ii) default in making any payment of any interest on any such Indebtedness beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created; or (iii) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or (in the case of all Indebtedness other than Indebtedness under any Swap Agreement) to permit the holder or beneficiary of such Indebtedness (or a trustee or agent on behalf of such holder or beneficiary) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity or (in the case of any such Indebtedness constituting a Guarantee Obligation) to become payable; provided, that a default, event or condition described in clause (i), (ii) or (iii) of this paragraph (e) shall not at any time constitute an Event of Default unless, at such time, one or

more defaults, events or conditions of the type described in clauses (i), (ii) and (iii) of this paragraph (e) shall have occurred and be continuing with respect to Indebtedness the outstanding principal amount of which exceeds in the aggregate \$100,000,000; provided further, that unless payment of the Loans hereunder has already been accelerated, if such default shall be cured by the Borrower or such Significant Subsidiary or waived by the holders of such Indebtedness and any acceleration of maturity having resulted from such default shall be rescinded or annulled, in each case, in accordance with the terms of such agreement or instrument, without any modification of the terms of such Indebtedness requiring the Borrower or such Significant Subsidiary to furnish security or additional security therefor, reducing the average life to maturity thereof or increasing the principal amount thereof, or any agreement by the Borrower or such Significant Subsidiary to furnish security or additional security therefor or to issue in lieu thereof Indebtedness secured by additional or other collateral or with a shorter average life to maturity or in a greater principal amount, then any Default hereunder by reason thereof shall be deemed likewise to have been thereupon cured or waived; or

(f) (i) the Borrower or any of its Significant Subsidiaries shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or the Borrower or any of its Significant Subsidiaries shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower or any of its Significant Subsidiaries any case, proceeding or other action of a nature referred to in clause (i) above that (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) there shall be commenced against the Borrower or any of its Significant Subsidiaries any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) the Borrower or any of its Significant Subsidiaries shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(g) a trustee shall be appointed to administer any Plan under Section 4042 of ERISA, or the PBGC shall institute proceedings to terminate, or to have a trustee appointed to administer any Plan and such proceedings shall continue undismissed or unstayed and in effect for a period of 60 days, but only if any such event could reasonably be expected to result in a Material Adverse Effect; or

(h) one or more judgments or decrees shall be entered against the Borrower or any of its Significant Subsidiaries involving in the aggregate a liability (not paid or, subject to customary deductibles, fully covered by insurance as to which the relevant insurance company has not denied coverage) of \$100,000,000 or more, and all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 30 days from the entry thereof; or

(i) there shall have occurred a Change of Control.

then, and in any such event, (A) if such event is an Event of Default specified in clause (i) or (ii) of paragraph (f) above with respect to the Borrower, automatically the Commitments shall immediately terminate and the Loans (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents shall immediately become due and payable, and (B) if such event is any other Event of Default, either or both of the following actions may be taken: (i) with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower declare the Commitments to be terminated forthwith, whereupon the Commitments shall immediately terminate; and (ii) with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower, declare the Loans (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents to be due and payable forthwith, whereupon the same shall immediately become due and payable. Except as expressly provided above in this Section, presentment, demand, protest and all other notices of any kind are hereby expressly waived by the Borrower.

SECTION 8. THE AGENTS

8.1 Appointment . Each Lender hereby irrevocably designates and appoints the Administrative Agent as the agent of such Lender under this Agreement and the other Loan Documents, and each such Lender irrevocably authorizes the Administrative Agent, in such capacity, to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent.

8.2 Delegation of Duties . The Administrative Agent may execute any of its duties under this Agreement and the other Loan Documents by or through agents or attorneys in fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

8.3 Exculpatory Provisions . Neither any Agent nor any of their respective officers, directors, employees, agents, attorneys in fact or affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except to the extent that any of the foregoing are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from its or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Agents under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Agents shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement (other than (in the case of the Administrative Agent only) to confirm

receipt of the deliverables required pursuant to Section 4.1) or any other Loan Document, or to inspect the properties, books or records of the Borrower.

8.4 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any instrument, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders (or, if so specified by this Agreement, all Lenders) as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders (or, if so specified by this Agreement, all Lenders), and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Loans.

8.5 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a “notice of default”. In the event that the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders (or, if so specified by this Agreement, all Lenders); provided that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders.

8.6 Non-Reliance on Agents and Other Lenders. Each Lender expressly acknowledges that neither the Agents nor any of their respective officers, directors, employees, agents, attorneys in fact or affiliates have made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of the Borrower or any of its affiliates, shall be deemed to constitute any representation or warranty by any Agent to any Lender. Each Lender represents to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and its affiliates and made its own decision to make its Loans hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower and its affiliates. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the

Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower or any of its affiliates that may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys in fact or affiliates.

8.7 Indemnification. The Lenders agree to indemnify each Agent in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Percentages in effect on the date on which indemnification is sought under this Section (or, if indemnification is sought after the date upon which the Commitments shall have terminated and the Loans shall have been paid in full, ratably in accordance with such Percentages immediately prior to such date), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever that may at any time (whether before or after the payment of the Loans) be imposed on, incurred by or asserted against such Agent in any way relating to or arising out of, the Commitments, this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by such Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements that are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from such Agent's gross negligence or willful misconduct.

8.8 Agent in Its Individual Capacity. Each Agent and its affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though such Agent were not an Agent. With respect to its Loans made or renewed by it, each Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Lender and may exercise the same as though it were not an Agent, and the terms "Lender" and "Lenders" shall include each Agent in its individual capacity.

8.9 Successor Administrative Agent. The Administrative Agent may resign as Administrative Agent upon 10 days' notice to the Lenders and the Borrower. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the other Loan Documents, then the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall (unless an Event of Default under Section 7(f) with respect to the Borrower shall have occurred and be continuing) be subject to approval by the Borrower (which approval shall not be unreasonably withheld or delayed), whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and the term "Administrative Agent" shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any holders of the Loans. If no successor agent has accepted appointment as Administrative Agent by the date that is 10 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective, and the Lenders shall assume and perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After any retiring Administrative Agent's resignation as Administrative Agent, the provisions of this Section 8 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents.

8.10 Documentation Agents and Syndication Agent. None of the Documentation Agents or the Syndication Agent shall have any duties or responsibilities hereunder in its capacity as such.

SECTION 9. MISCELLANEOUS

9.1 Amendments and Waivers. Neither this Agreement, any other Loan Document, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this Section 9.1. The Required Lenders and the Borrower may, or, with the written consent of the Required Lenders, the Administrative Agent and the Borrower may, from time to time, (a) enter into written amendments, supplements or modifications hereto and to the other Loan Documents for the purpose of adding any provisions to this Agreement or the other Loan Documents or changing in any manner the rights of the Lenders or of the Borrower hereunder or thereunder or (b) waive, on such terms and conditions as the Required Lenders or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of this Agreement or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall:

(i) forgive the principal amount or extend the final scheduled date of maturity of any Loan, reduce the stated rate of any interest or fee payable hereunder (except in connection with the waiver of applicability of any post-default increase in interest rates (which waiver shall be effective with the consent of the Required Lenders)) or extend the scheduled date of any payment thereof, or increase the amount or extend the expiration date of any Lender's Commitment, in each case without the written consent of each Lender directly affected thereby (except that only the Lenders who are increasing their Commitments are required to consent to a request by the Borrower under Section 2.3 to increase the Total Commitments);

(ii) eliminate or reduce the voting rights of any Lender under this Section 9.1 or Section 9.6(a)(i) without the written consent of such Lender;

(iii) reduce any percentage specified in the definition of Required Lenders without the written consent of all Lenders;

(iv) amend, modify or waive any provision of Section 2.14 related to pro rata treatment without the consent of each Lender directly affected thereby;

(v) amend, modify or waive any provision of Section 8 without the written consent of the Administrative Agent;

(vi) amend, modify or waive any provision of Section 2.4 or 2.5 without the written consent of the Swingline Lender; or

(vii) amend, modify or waive any provision of Section 4.1 without the consent of all the Lenders.

Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Borrower, the Lenders, the Administrative Agent and all future holders of the Loans. In the case of any waiver, the Borrower, the Lenders and the Administrative Agent shall be restored to their former position and rights hereunder and under the other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not

continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

If the Required Lenders shall have approved any amendment which requires the consent of all of the Lenders, the Borrower shall be permitted to replace any non-consenting Lender with another financial institution, provided that, (i) the replacement financial institution shall purchase at par, all Loans and other amounts owing to such replaced Lender on or prior to the date of replacement, (ii) the Borrower shall be liable to such replaced Lender under Section 2.17 if any Eurodollar Loan owing to such replaced Lender shall be purchased other than on the last day of the Interest Period relating thereto (as if such purchase constituted a prepayment of such Loans), (iii) such replacement financial institution, if not already a Lender, shall be reasonably satisfactory to the Administrative Agent, (iv) the replaced Lender shall be obligated to make such replacement in accordance with the provisions of Section 9.6 (provided that the Borrower shall be obligated to pay the registration and processing fee referred to therein) and (v) any such replacement shall not be deemed to be a waiver of any rights the Borrower, the Administrative Agent or any other Lender shall have against the replaced Lender.

Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, supplement, modification, waiver or consent hereunder (and any amendment, supplement, modification, waiver or consent which by its terms requires the consent of all Lenders or each affected Lender may be effected with the consent of the applicable Lenders other than Defaulting Lenders), except that (i) (x) an increase or extension of the Commitment of such Defaulting Lender, or (y) any reduction of the amount of principal or interest owed to such Defaulting Lender (unless all non-Defaulting Lenders have agreed to a pro rata reduction) shall, in each case, require the consent of such Defaulting Lender, and (ii) a Defaulting Lender's Percentage shall be taken into consideration along with the Percentage of non-Defaulting Lenders when voting to approve or disapprove any waiver, amendment or modification that by its terms affects any Defaulting Lender more adversely than other affected Lenders.

Notwithstanding anything to the contrary herein but subject to obtaining all necessary regulatory approvals, in addition to the amendments described above, each of the Non-Procurement Facility Limit and the Procurement Facility Limit may be changed by the Borrower by written notice to the Administrative Agent and no consent of any other party shall be required; provided that, the sum of the Non-Procurement Facility Limit and the Procurement Facility Limit may not exceed the Total Commitments; provided that any notice delivered pursuant to Section 2.2 or Section 2.5 which would, after giving effect to the Loans requested to be made, cause the aggregate outstanding principal amount of the Loans, the proceeds of which were used for activities other than energy procurement, to exceed the Non-Procurement Facility Limit or cause the aggregate outstanding principal amount of the Loans, the proceeds of which were used for energy procurement to exceed the Procurement Facility Limit, shall be deemed to be a notice by the Borrower hereunder.

9.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered, or three Business Days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice, when received, addressed as follows in the case of the Borrower and the Administrative Agent, and as set forth in an administrative questionnaire delivered to the Administrative Agent in the case of the Lenders, or to such other address as may be hereafter notified by the respective parties hereto:

Borrower: Pacific Gas and Electric Company
c/o PG&E Corporation
One Market Street
Spear Tower, Suite 2400
San Francisco, California 94105
Attention: Treasurer
Telecopy: (415) 267-7265/7268
Telephone: (415) 817-8199/(415) 267-7000

with a copy to: Pacific Gas and Electric Company
c/o PG&E Corporation
One Market Street
Spear Tower, Suite 2400
San Francisco, California 94105
Attention: Chief Counsel, Corporate
Telecopy: (415) 817-8225
Telephone: (415) 817-8200

Administrative Agent: Wells Fargo Bank, National Association
1525 W. WT Harris Boulevard
Charlotte, NC 28262
Attention: Syndication Agency Services
Telecopy: (704) 715-0017
Telephone: (704) 590-2706,

provided that any notice, request or demand to or upon the Administrative Agent or any Lender shall not be effective until received.

Notices and other communications to the Administrative Agent or the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to Section 2 unless otherwise agreed by the Administrative Agent and each Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

9.3 No Waiver; Cumulative Remedies . No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Lender, any right, remedy, power or privilege hereunder or under the other Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

9.4 Survival of Representations and Warranties . All representations and warranties made hereunder, in the other Loan Documents and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the making of the Loans and other extensions of credit hereunder.

9.5 Payment of Expenses and Taxes. The Borrower agrees (a) to pay or reimburse the Administrative Agent and the Lenders for all their respective reasonable out of pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Agreement and the other Loan Documents and any other documents prepared in connection herewith or therewith, and the consummation of the transactions contemplated hereby and thereby, including the reasonable fees and disbursements of only one counsel and special California regulatory counsel to the Administrative Agent and filing and recording fees and expenses, with statements with respect to the foregoing to be submitted to the Borrower prior to the Effective Date (in the case of amounts to be paid on the Effective Date) and from time to time thereafter on a quarterly basis or such other periodic basis as the Administrative Agent shall deem appropriate, (b) to pay or reimburse each Lender and the Administrative Agent for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the other Loan Documents and any such other documents, including the fees and disbursements of only one counsel to the Administrative Agent and the Lenders, (c) to pay, indemnify, and hold each Lender and the Administrative Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and Other Taxes, if any, that may be payable or determined to be payable in connection with the execution and delivery of, or consummation of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the other Loan Documents and any such other documents, and (d) to pay, indemnify, and hold each Lender and the Administrative Agent and their respective officers, directors, employees, affiliates, agents and controlling persons (each, an “Indemnitee”) harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever, whether brought by the Borrower or any other Person, with respect to the execution, delivery, enforcement and performance of this Agreement, the other Loan Documents and any such other documents, including any of the foregoing relating to the use of proceeds of the Loans or the violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of the Borrower and its Significant Subsidiaries or any of the facilities and properties owned, leased or operated by the Borrower and its Significant Subsidiaries and the reasonable fees and expenses of one legal counsel in connection with claims, actions or proceedings by any Indemnitee against the Borrower under any Loan Document (all the foregoing in this clause (d), collectively, the “Indemnified Liabilities”), provided, that the Borrower shall have no obligation hereunder to any Indemnitee with respect to Indemnified Liabilities to the extent such Indemnified Liabilities resulted from the gross negligence or willful misconduct of such Indemnitee as determined in a final judgment by a court of competent jurisdiction. Without limiting the foregoing, and to the extent permitted by applicable law, the Borrower agrees not to assert and to cause its Significant Subsidiaries not to assert, and hereby waives and agrees to cause its Significant Subsidiaries to waive, all rights for contribution or any other rights of recovery with respect to all claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature, under or related to Environmental Laws, that any of them might have by statute or otherwise against any Indemnitee. All amounts due under this Section 9.5 shall be payable not later than 30 days after written demand therefor, subject to the Borrower’s receipt of reasonably detailed invoices. Statements payable by the Borrower pursuant to this Section 9.5 shall be submitted to Treasurer (Telephone No. (415) 817-8199/(415) 267-7000) (Telecopy No. (415) 267-7265/7268), at the address of the Borrower set forth in Section 9.2 with a copy to Chief Counsel, Corporate (Telephone No. (415) 817-8200) (Telecopy No. (415) 817-8225), at the address of the Borrower set forth in Section 9.2, or to such other Person or address as may be hereafter designated by the Borrower in a written notice to the Administrative Agent. The agreements in this Section 9.5 shall survive for two years after repayment of the Loans and all other amounts payable hereunder.

9.6 Successors and Assigns; Participations and Assignments. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section 9.6.

(b) (i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees (each, an “Assignee”) other than the Borrower or an affiliate of the Borrower all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld or delayed) of:

(A) the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Lender, an Eligible Assignee that is an affiliate of any Lender party to this Agreement on the Effective Date or, if an Event of Default has occurred and is continuing, any other Person; and

(B) the Administrative Agent, provided that no consent of the Administrative Agent shall be required for an assignment of any Commitment to an assignee that is a Lender (or an affiliate of a Lender) with a Commitment immediately prior to giving effect to such assignment.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitments or Loans, the amount of the Commitments or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$10,000,000 (or, if such assignee is an Eligible Assignee that is an affiliate of a Lender, \$5,000,000) unless each of the Borrower and the Administrative Agent otherwise consent, provided that (1) no such consent of the Borrower shall be required if an Event of Default has occurred and is continuing, and (2) with respect to any Lender party to this Agreement on the Effective Date, such amounts shall be aggregated in respect of such Lender and any affiliate of such Lender that is an Eligible Assignee;

(B) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500, except that no such processing fee shall be payable in the case of an assignee which is an affiliate of a Lender; and

(C) the Assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an administrative questionnaire.

In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the

Administrative Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other compensating actions, including funding, with the consent of the Borrower and the Administrative Agent, the applicable pro rata share of Loans previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (x) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Administrative Agent or any Lender hereunder (and interest accrued thereon) and (y) acquire (and fund as appropriate) its full pro rata share of all Loans and participations in Swingline Loans in accordance with its Percentage. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) below, from and after the effective date specified in each Assignment and Assumption the Assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.5 but shall be subject to the limitations set forth therein). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.6 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an Assignee, the Assignee's completed administrative questionnaire (unless the Assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c) (i) Any Lender may, without the consent of the Borrower or the Administrative Agent, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitments and the Loans owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other

parties hereto for the performance of such obligations and (C) the Borrower, the Administrative Agent and the Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver that (1) requires the consent of each Lender directly affected thereby pursuant to the proviso to the second sentence of Section 9.1 and (2) directly affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section.

(ii) Notwithstanding anything to the contrary herein, a Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.16 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent to such greater payments. Any Participant that is a Non-U.S. Lender shall not be entitled to the benefits of Section 2.16 unless such Participant complies with Section 2.16(d).

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or Assignee for such Lender as a party hereto.

(e) The Borrower, upon receipt of written notice from the relevant Lender, agrees to issue Notes to any Lender requiring Notes to facilitate transactions of the type described in paragraph (d) above.

(f) Notwithstanding the foregoing, any Conduit Lender may assign any or all of the Loans it may have funded hereunder to its designating Lender without the consent of the Borrower or the Administrative Agent and without regard to the limitations set forth in Section 9.6(b). Each of the Borrower, each Lender and the Administrative Agent hereby confirms that it will not institute against a Conduit Lender or join any other Person in instituting against a Conduit Lender any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding under any state bankruptcy or similar law, for one year and one day after the payment in full of the latest maturing commercial paper note issued by such Conduit Lender; provided, however, that each Lender designating any Conduit Lender hereby agrees to indemnify, save and hold harmless each other party hereto for any loss, cost, damage, expense, obligations, penalties, actions, judgments, suits or any kind whatsoever arising out of its inability to institute such a proceeding against such Conduit Lender during such period of forbearance.

(g) Notwithstanding anything to the contrary in this Section, none of the Agents, in their capacity as Lenders, will assign without the consent of the Borrower, prior to the Effective Date, any of the Commitments held by them on the date of this Agreement.

9.7 Adjustments; Set off. (a) Except to the extent that this Agreement expressly provides for payments to be allocated to a particular Lender, if any Lender (a “Benefitted Lender”) shall receive any payment of all or part of the Obligations owing to it hereunder, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set off, pursuant to events or proceedings of the nature referred to in Section 7(f), or otherwise), in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of the Obligations owing to such other Lender hereunder, such Benefitted Lender shall purchase for cash from the other Lenders a participating interest in such portion of the Obligations owing to each such other Lender hereunder, or shall provide such other Lenders with the benefits of any such collateral, as shall be necessary to cause such Benefitted Lender to share the excess payment or benefits of such collateral ratably with each of the Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefitted Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest.

(b) In addition to any rights and remedies of the Lenders provided by law, including other rights of set-off, each Lender shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder (whether at the stated maturity, by acceleration or otherwise), after any applicable grace period, to set off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch, affiliate or agency thereof to or for the credit or the account of the Borrower. Each Lender agrees promptly to notify the Borrower and the Administrative Agent after any such setoff and application made by such Lender, provided that the failure to give such notice shall not affect the validity of such setoff and application.

9.8 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

9.9 Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9.10 Integration. This Agreement and the other Loan Documents represent the entire agreement of the Borrower, the Administrative Agent and the Lenders with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

9.11 GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED

BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

9.12 Submission To Jurisdiction; Waivers . The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non exclusive general jurisdiction of the courts of the State of New York, the courts of the United States for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at its address set forth in Section 9.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding relating to this Agreement or any other Loan Document any special, exemplary, punitive or consequential damages.

9.13 Acknowledgments . The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents;

(b) neither the Administrative Agent nor any Lender has any fiduciary relationship with or duty to the Borrower arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between Administrative Agent and Lenders, on one hand, and the Borrower, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Lenders or among the Borrower and the Lenders.

9.14 Confidentiality . Each of the Administrative Agent and each Lender agrees to keep confidential in accordance with such party's customary practices (and in any event in compliance with applicable law regarding material non-public information) all non-public information provided to it by the Borrower, the Administrative Agent or any Lender pursuant to or in connection with this Agreement that is designated by the provider thereof as confidential; provided that nothing herein shall prevent the Administrative Agent or any Lender from disclosing any such information (a) to the Administrative

Agent, any other Lender or any affiliate thereof, (b) subject to an agreement to comply with the provisions of this Section or substantially equivalent provisions, to any actual or prospective Transferee or any direct or indirect counterparty to any Swap Agreement (or any professional advisor to such counterparty), (c) to its employees, directors, agents, attorneys, accountants and other professional advisors or those of any of its affiliates (as long as such attorneys, accountants and other professional advisors are subject to confidentiality requirements substantially equivalent to this Section), (d) upon the request or demand of any Governmental Authority, (e) in response to any order of any court or other Governmental Authority or as may otherwise be required pursuant to any Requirement of Law, (f) if requested or required to do so in connection with any litigation or similar proceeding, (g) that has been publicly disclosed, (h) to the National Association of Insurance Commissioners or any similar organization or any nationally recognized rating agency that requires access to information about a Lender's investment portfolio in connection with ratings issued with respect to such Lender, or (i) in connection with the exercise of any remedy hereunder or under any other Loan Document, provided that, in the case of clauses (d), (e) and (f) of this Section 9.14, with the exception of disclosure to bank regulatory authorities, the Borrower (to the extent legally permissible) shall be given prompt prior notice so that it may seek a protective order or other appropriate remedy.

9.15 WAIVERS OF JURY TRIAL . TO THE FULLEST EXTENT PERMITTED BY LAW, THE BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

9.16 USA Patriot Act . Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the Act.

9.17 Judicial Reference . If any action or proceeding is filed in a court of the State of California by or against any party hereto in connection with any of the transactions contemplated by this Agreement or any other Loan Document, (i) the court shall, and is hereby directed to, make a general reference pursuant to California Code of Civil Procedure Section 638 to a referee (who shall be a single active or retired judge) to hear and determine all of the issues in such action or proceeding (whether of fact or of law) and to report a statement of decision, provided that at the option of any party to such proceeding, any such issues pertaining to a "provisional remedy" as defined in California Code of Civil Procedure Section 1281.8 shall be heard and determined by the court, and (ii) without limiting the generality of Section 9.5, the Borrower shall be solely responsible to pay all fees and expenses of any referee appointed in such action or proceeding.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

PACIFIC GAS AND ELECTRIC COMPANY

By: _____
Name: Nicholas M. Bijur
Title: Treasurer

-Signature Page-
Credit Agreement

WELLS FARGO BANK, NATIONAL ASSOCIATION, as
Administrative Agent, Swingline Lender and as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

THE ROYAL BANK OF SCOTLAND PLC, as
Syndication Agent and as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

BANCO BILBAO VIZCAYA ARGENTARIA, S.A.,
New York Branch, as Documentation Agent and as a
Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.,
New York Branch, as Documentation Agent and as a
Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

U.S. BANK NATIONAL ASSOCIATION,
as Documentation Agent

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

BANK OF AMERICA, N.A., as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

BARCLAYS BANK PLC, as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

BNP PARIBAS, as a Lender

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

-Signature Page-
Credit Agreement

DEUTSCHE BANK AG, New York Branch,
as a Lender

By: _____
Name:
Title:

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

GOLDMAN SACHS BANK USA, as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

MIZUHO CORPORATE BANK (USA), as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

MORGAN STANLEY BANK, N.A., as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

ROYAL BANK OF CANADA, as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

UBS LOAN FINANCE LLC, as a Lender

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

-Signature Page-
Credit Agreement

CITIBANK, N.A., as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

EAST WEST BANK, as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

RBC BANK (USA), as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

JPMORGAN CHASE BANK, N.A., as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

THE NORTHERN TRUST COMPANY, as a Lender

By: _____
Name:
Title:

-Signature Page-
Credit Agreement

COMMITMENTS

<u>Lender</u>	<u>Commitment</u>
Wells Fargo Bank, National Association	\$ 145,000,000
The Royal Bank of Scotland plc	\$ 95,000,000
Banco Bilbao Vizcaya Argentaria, S.A., New York Branch	\$ 35,000,000
The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch	\$ 35,000,000
U.S. Bank National Association	\$ 35,000,000
Bank of America N.A.	\$ 35,000,000
Barclays Bank PLC	\$ 35,000,000
BNP Paribas	\$ 35,000,000
Deutsche Bank AG New York Branch	\$ 35,000,000
Goldman Sachs Bank USA	\$ 35,000,000
Mizuho Corporate Bank (USA)	\$ 35,000,000
Morgan Stanley Bank N.A.	\$ 35,000,000
Royal Bank of Canada	\$ 35,000,000
UBS Loan Finance LLC	\$ 35,000,000
Citibank N.A.	\$ 20,000,000
East West Bank	\$ 20,000,000
RBC Bank (USA)	\$ 20,000,000
JPMorgan Chase Bank N.A.	\$ 15,000,000
The Northern Trust Company	\$ 15,000,000
TOTAL	\$750,000,000.00

Schedule 1.1A
Credit Agreement

FORM OF
NEW LENDER SUPPLEMENT

Reference is made to the \$750,000,000 Credit Agreement, dated as of June 8, 2010 (as amended, supplemented or otherwise modified from time to time, the “Credit Agreement”), among Pacific Gas and Electric Company, a California corporation (the “Borrower”), the Lenders parties thereto, Wells Fargo Securities LLC and RBS Securities Inc., as joint lead arrangers and joint book runners, The Royal Bank of Scotland plc, as syndication agent, Banco Bilbao Vizcaya Argentaria, S.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, U.S. Bank National Association, as documentation agents, and Wells Fargo Bank, National Association, as administrative agent (in such capacity, the “Administrative Agent”). Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

The New Revolving Credit Lender identified on Schedule 1 hereto (the “New Lender”), the Administrative Agent and the Borrower agree as follows:

1. The New Lender hereby irrevocably makes a Commitment to the Borrower in the amount set forth on Schedule 1 hereto (the “New Commitment”) pursuant to Section 2.3(b) of the Credit Agreement. From and after the Effective Date (as defined below), the New Lender will be a Lender under the Credit Agreement with respect to the New Commitment.
2. The Administrative Agent (a) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or with respect to the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement; and (b) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower, any of its Subsidiaries or any other obligor or the performance or observance by the Borrower, any of its Subsidiaries or any other obligor of any of their respective obligations under the Credit Agreement or any other instrument or document furnished pursuant hereto or thereto.
3. The New Lender (a) represents and warrants that it is legally authorized to enter into this New Lender Supplement; (b) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered or deemed delivered pursuant to Section 5.1 of the Credit Agreement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this New Lender Supplement; (c) agrees that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement or any other instrument or document furnished pursuant hereto or thereto; (d) appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Credit Agreement or any other instrument or document furnished pursuant hereto or thereto as are delegated to the Administrative Agent by the terms thereof, together with such powers as are incidental thereto; and (e) agrees that it will be bound by the provisions of the Credit Agreement and

Exhibits
Credit Agreement

will perform in accordance with its terms all the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender.

4. The effective date of this New Lender Supplement shall be the Effective Date of the New Commitment described in Schedule 1 hereto (the “Effective Date”). Following the execution of this New Lender Supplement by each of the New Lender and the Borrower, it will be delivered to the Administrative Agent for acceptance and recording by it pursuant to the Credit Agreement, effective as of the Effective Date (which shall not, unless otherwise agreed to by the Administrative Agent, be earlier than five Business Days after the date of such acceptance and recording by the Administrative Agent).

5. Upon such acceptance and recording, from and after the Effective Date, the Administrative Agent shall make all payments in respect of the New Commitment (including payments of principal, interest, fees and other amounts) to the New Lender for amounts which have accrued on and subsequent to the Effective Date.

6. From and after the Effective Date, the New Lender shall be a party to the Credit Agreement and, to the extent provided in this New Lender Supplement, shall have the rights and obligations of a Lender thereunder and shall be bound by the provisions thereof.

7. This New Lender Supplement shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this New Lender Supplement to be executed as of _____, 201__ by their respective duly authorized officers on Schedule 1 hereto.

[Remainder of page intentionally left blank. Schedule 1 to follow.]

Exhibits
Credit Agreement

Schedule 1
to New Lender Supplement

Name of New Lender: _____

Effective Date of New Commitment: _____

Principal Amount of New Commitment: \$ _____

[NAME OF NEW LENDER]

By: _____

Name:

Title:

PACIFIC GAS AND ELECTRIC COMPANY

By: _____

Name:

Title:

WELLS FARGO BANK, NATIONAL
ASSOCIATION,
as Administrative Agent

By: _____

Name:

Title:

Exhibits
Credit Agreement

FORM OF
COMMITMENT INCREASE SUPPLEMENT

Reference is made to the \$750,000,000 Credit Agreement, dated as of June 8, 2010 (as amended, supplemented or otherwise modified from time to time, the “Credit Agreement”), among Pacific Gas and Electric Company, a California corporation (the “Borrower”), the Lenders parties thereto, Wells Fargo Securities LLC and RBS Securities Inc., as joint lead arrangers and joint book runners, The Royal Bank of Scotland plc, as syndication agent, Banco Bilbao Vizcaya Argentaria, S.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, U.S. Bank National Association, as documentation agents, and Wells Fargo Bank, National Association, as administrative agent (in such capacity, the “Administrative Agent”). Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

The Lender identified on Schedule I hereto (the “Increasing Lender”), the Administrative Agent and the Borrower agree as follows:

1. The Increasing Lender hereby irrevocably increases its Commitment to the Borrower by the amount set forth on Schedule 1 hereto under the heading “Principal Amount of Increased Commitment” (the “Increased Commitment”) pursuant to Section 2.3(c) of the Credit Agreement. From and after the Effective Date (as defined below), the Increasing Lender will be a Lender under the Credit Agreement with respect to the Increased Commitment as well as its existing Commitment under the Credit Agreement.
2. The Administrative Agent (a) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or with respect to the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement; and (b) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower, any of its Subsidiaries or any other obligor or the performance or observance by the Borrower, any of its Subsidiaries or any other obligor of any of their respective obligations under the Credit Agreement or any other instrument or document furnished pursuant hereto or thereto.
3. The Increasing Lender (a) represents and warrants that it is legally authorized to enter into this Commitment Increase Supplement; (b) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered or deemed delivered pursuant to Section 5.1 of the Credit Agreement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Commitment Increase Supplement; (c) agrees that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement or any other instrument or document furnished pursuant hereto or thereto; (d) appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Credit Agreement or any other instrument or document furnished pursuant hereto or thereto as are delegated to the Administrative Agent by the terms thereof, together with such powers as are incidental thereto; and (e) agrees that it will be bound by the provisions of the Credit Agreement and

Exhibits
Credit Agreement

will perform in accordance with its terms all the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender.

4. The effective date of this Commitment Increase Supplement shall be the Effective Date of the Increased Commitment described in Schedule 1 hereto (the “Effective Date”). Following the execution of this Commitment Increase Supplement by each of the Increasing Lender and the Borrower, it will be delivered to the Administrative Agent for acceptance and recording by it pursuant to the Credit Agreement, effective as of the Effective Date (which shall not, unless otherwise agreed to by the Administrative Agent, be earlier than five Business Days after the date of such acceptance and recording by the Administrative Agent).

5. Upon such acceptance and recording, from and after the Effective Date, the Administrative Agent shall make all payments in respect of the Increased Commitment (including payments of principal, interest, fees and other amounts) to the Increasing Lender for amounts which have accrued on and subsequent to the Effective Date.

6. This Commitment Increase Supplement shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Commitment Increase Supplement to be executed as of _____, 201__ by their respective duly authorized officers on Schedule 1 hereto.

[Remainder of page intentionally left blank. Schedule 1 to follow.]

Exhibits
Credit Agreement

Schedule 1
to Commitment Increase Supplement

Name of Increasing Lender: _____

Effective Date of Increased Commitment: _____

**Principal
Amount of
Increased Commitment:**

\$ _____

**Total Amount of Commitment
of Increasing Lender
(including Increased Commitment):**

\$ _____

-

-

[NAME OF INCREASING LENDER]

By: _____

Name:

Title:

PACIFIC GAS AND ELECTRIC COMPANY

By: _____

Name:

Title:

Accepted:

WELLS FARGO BANK, NATIONAL
ASSOCIATION,
as Administrative Agent

By: _____

Name:

Title:

Exhibits
Credit Agreement

FORM OF COMPLIANCE CERTIFICATE

This Compliance Certificate is delivered pursuant to Section 5.2 of the \$750,000,000 Credit Agreement, dated as of June 8, 2010 (as amended, supplemented or otherwise modified from time to time, the “Credit Agreement”), among Pacific Gas and Electric Company, a California corporation (the “Borrower”), the lenders parties thereto (the “Lenders”), Wells Fargo Securities LLC and RBS Securities Inc., as joint lead arrangers and joint book runners, The Royal Bank of Scotland plc, as syndication agent, Banco Bilbao Vizcaya Argentaria, S.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, U.S. Bank National Association, as documentation agents, and Wells Fargo Bank, National Association, as administrative agent (in such capacity, the “Administrative Agent”). Terms defined in the Credit Agreement are used herein as therein defined.

The undersigned hereby certifies to the Administrative Agent and the Lenders as follows:

1. I am the duly elected, qualified and acting [Chief Financial Officer] [Treasurer] [Assistant Treasurer] of the Borrower.
2. I have reviewed and am familiar with the contents of this Certificate.

3. To the knowledge of the undersigned, during the fiscal period covered by the financial statements attached hereto as Attachment 1, no Default or Event of Default has occurred and is continuing [, except as set forth below].

4. Attached hereto as Attachment 2 are the computations showing compliance with the covenant set forth in Section 6.1 of the Credit Agreement.

[Remainder of page intentionally left blank. Schedule 1 to follow.]

Exhibits
Credit Agreement

IN WITNESS WHEREOF, the undersigned has executed this Compliance Certificate as of the date set forth below.

PACIFIC GAS AND ELECTRIC COMPANY

By: _____
Name:
Title:

Date: _____, 201 _

Exhibits
Credit Agreement

Financial Statements
Period Ended _____, 201 _

Exhibits
Credit Agreement

The information described herein is as of _____, 201__.

[Set forth Covenant Calculation]

Exhibits
Credit Agreement

FORM OF CLOSING CERTIFICATE

This Closing Certificate is delivered pursuant to Section 4.1(d) of the \$750,000,000 Credit Agreement, dated as of June 8, 2010 (as amended, supplemented or otherwise modified from time to time, the “Credit Agreement”), among Pacific Gas and Electric Company, a California corporation (the “Borrower”), the lenders parties thereto (the “Lenders”), Wells Fargo Securities LLC and RBS Securities Inc., as joint lead arrangers and joint book runners, The Royal Bank of Scotland plc, as syndication agent, Banco Bilbao Vizcaya Argentaria, S.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, U.S. Bank National Association, as documentation agents, and Wells Fargo Bank, National Association, as administrative agent (in such capacity, the “Administrative Agent”). Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

The undersigned [_____] of the Borrower hereby certifies to the Administrative Agent and the Lenders as follows:

1. The representations and warranties of the Borrower set forth in the Credit Agreement that do not contain a materiality qualification are true and correct in all material respects on and as of the date hereof with the same effect as if made on the date hereof, and the representations and warranties of the Borrower set forth in the Credit Agreement that do contain a materiality qualification are true and correct on and as of the date hereof with the same effect as if made on the date hereof, except for any representations and warranties that specifically relate to an earlier date, in which case such representations and warranties were true and correct in all material respects, or true and correct, as the case may be, as of such earlier date.

2. [_____] is the duly elected and qualified [Assistant] Secretary of the Borrower and the signature set forth for such officer below is such officer's true and genuine signature.

3. No Default or Event of Default has occurred and is continuing as of the date hereof.

4. The conditions precedent set forth in Section 4.1 of the Credit Agreement were satisfied as of the Effective Date.

5. All governmental and third party consents and approvals necessary in connection with the Credit Agreement and the other Loan Documents and the transactions contemplated thereby have been obtained and are now in full force and effect.

Exhibits
Credit Agreement

The undersigned [Assistant] Secretary of the Borrower certifies as follows:

1. There are no liquidation or dissolution proceedings pending or to my knowledge threatened against the Borrower.
2. The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the State of California.
3. Attached hereto as Annex 1 is a true and complete copy of resolutions duly adopted by the Board of Directors of the Borrower on [_____]; such resolutions have not in any way been amended, modified, revoked or rescinded, have been in full force and effect since their adoption to and including the date hereof and are now in full force and effect and are the only corporate proceedings of the Borrower now in force relating to or affecting the Credit Agreement.
4. Attached hereto as Annex 2 is a true and complete copy of the Bylaws of the Borrower as in effect on the date hereof.
5. Attached hereto as Annex 3 is a true and complete copy of the Articles of Incorporation of the Borrower as in effect on the date hereof, and such Articles of Incorporation have not been amended, repealed, modified or restated.
6. The following persons are now duly elected and qualified officers of the Borrower holding the offices indicated next to their respective names below, and that the facsimile signatures affixed next to their respective names below are the facsimile signatures of such officers, and each of such officers is duly authorized to execute and deliver on behalf of the Borrower each of the Loan Documents to which it is a party and any certificate or other document to be delivered by the Borrower pursuant to the Loan Documents to which it is a party:

Name

Office

Signature

Exhibits
Credit Agreement

IN WITNESS WHEREOF, the undersigned have executed this Closing Certificate as of the date set forth below.

[Name]
[Title]

[Name]
[Assistant] Secretary

Date: June 8, 2010

Exhibits
Credit Agreement

[Board Resolutions]
Exhibits
Credit Agreement

[Bylaws of the Company]

Exhibits
Credit Agreement

[Articles of Incorporation]

Exhibits

Credit Agreement

FORM OF
ASSIGNMENT AND ASSUMPTION

Reference is made to the \$750,000,000 Credit Agreement, dated as of June 8, 2010 (as amended, supplemented or otherwise modified from time to time, the “Credit Agreement”), among Pacific Gas and Electric Company, a California corporation (the “Borrower”), the Lenders parties thereto, Wells Fargo Securities LLC and RBS Securities Inc., as joint lead arrangers and joint book runners, The Royal Bank of Scotland plc, as syndication agent, Banco Bilbao Vizcaya Argentaria, S.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, U.S. Bank National Association, as documentation agents, and Wells Fargo Bank, National Association, as administrative agent (in such capacity, the “Administrative Agent”). Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

The Assignor identified on Schedule I hereto (the “Assignor”) and the Assignee identified on Schedule I hereto (the “Assignee”) agree as follows:

1. The Assignor hereby irrevocably sells and assigns to the Assignee without recourse to the Assignor, and the Assignee hereby irrevocably purchases and assumes from the Assignor without recourse to the Assignor, as of the Effective Date (as defined below), (i) the interest described in Schedule 1 hereto in and to the Assignor’s rights and obligations under the Credit Agreement (the “Assigned Facility”) in the principal amount set forth on Schedule 1 hereto and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as, the “Assigned Interest”).

2. The Assignor (a) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or with respect to the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement, any other Loan Document or any other instrument or document furnished pursuant thereto, other than that the Assignor has not created any adverse claim upon the interest being assigned by it hereunder and that such interest is free and clear of any such adverse claim; (b) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower, any of its Subsidiaries or any other obligor or the performance or observance by the Borrower, any of its Subsidiaries or any other obligor of any of their respective obligations under the Credit Agreement or any other Loan Document or any other instrument or document furnished pursuant hereto or thereto; and (c) attaches any Note held by it evidencing the Assigned Facility and (i) requests that the Administrative Agent, upon request by the Assignee, exchange the attached Note for a new Note payable to the Assignee and (ii) if the Assignor has retained any interest in the Assigned

Exhibits
Credit Agreement

Facility, requests that the Administrative Agent exchange the attached Note for a new Note payable to the Assignor, in each case in amounts which reflect the assignment being made hereby (and after giving effect to any other assignments which have become effective on the Effective Date).

3. The Assignee (a) represents and warrants that it is legally authorized to enter into this Assignment and Assumption; (b) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements delivered pursuant to Section 5.1 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption; (c) agrees that it will, independently and without reliance upon the Assignor, the Agents or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement, the other Loan Documents or any other instrument or document furnished pursuant hereto or thereto; (d) appoints and authorizes the Agents to take such action as agent on its behalf and to exercise such powers and discretion under the Credit Agreement, the other Loan Documents or any other instrument or document furnished pursuant hereto or thereto as are delegated to the Agents by the terms thereof, together with such powers as are incidental thereto; and (e) agrees that it will be bound by the provisions of the Credit Agreement and will perform in accordance with its terms all the obligations which by the terms of the Credit Agreement are required to be performed by it as a Lender including, if it is organized under the laws of a jurisdiction outside the United States, its obligation pursuant to Section 2.16(d) of the Credit Agreement.

4. The effective date of this Assignment and Assumption shall be the Effective Date of Assignment described in Schedule 1 hereto (the “Effective Date”). Following the execution of this Assignment and Assumption, it will be delivered to the Administrative Agent for acceptance by it and recording by the Administrative Agent pursuant to the Credit Agreement, effective as of the Effective Date (which shall not, unless otherwise agreed to by the Administrative Agent, be earlier than five Business Days after the date of such acceptance and recording by the Administrative Agent).

5. Upon such acceptance and recording, from and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) [to the Assignor for amounts which have accrued to the Effective Date and to the Assignee for amounts which have accrued subsequent to the Effective Date] [to the Assignee whether such amounts have accrued prior to the Effective Date or accrue subsequent to the Effective Date. The Assignor and the Assignee shall make all appropriate adjustments in payments by the Agent for periods prior to the Effective Date or with respect to the making of this assignment directly between themselves.]

6. From and after the Effective Date, (a) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Assumption, have the rights and obligations of a Lender thereunder and under the other Loan Documents and shall be bound by the provisions thereof and (b) the Assignor shall, to the extent provided in this Assignment and Assumption, relinquish its rights and be released from its obligations under the Credit Agreement.

7. This Assignment and Assumption shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

Exhibits
Credit Agreement

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Assumption to be executed as of the date first above written by their respective duly authorized officers on Schedule 1 hereto.

[ASSIGNOR]

[ASSIGNEE]

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Exhibits
Credit Agreement

Schedule 1
to Assignment and Assumption

Name of Assignor: _____

Name of Assignee: _____

Effective Date of Assignment: _____

<u>Assigned Facility</u>	<u>Principal Amount Assigned</u>	<u>[Percentage Assigned]*</u>
[Name of Assignor]	\$ _____	____. ____%

By: _____
Name:
Title:

[Name of Assignee]

By: _____
Name:
Title:

* Calculate the Commitment Percentage that is assigned to at least 10 decimal places and show as a percentage of the aggregate commitments of all Lenders.

Exhibits
Credit Agreement

Consented to:

PACIFIC GAS AND ELECTRIC
COMPANY**

By: _____
Name:
Title:

Accepted and Consented to:

[WELLS FARGO BANK, NATIONAL
ASSOCIATION, as
Administrative Agent]**

By: _____
Name:
Title:

** As applicable pursuant to Section 9.6(b).

Exhibits
Credit Agreement

FORM OF LEGAL OPINION OF ORRICK, HERRINGTON & SUTCLIFFE LLP

Exhibits
Credit Agreement

FORM OF EXEMPTION CERTIFICATE

Reference is made to the \$750,000,000 Credit Agreement, dated as of June 8, 2010 (as amended, supplemented or otherwise modified from time to time, the “Credit Agreement”), among Pacific Gas and Electric Company, a California corporation (the “Borrower”), the Lenders parties thereto, Wells Fargo Securities LLC and RBS Securities Inc., as joint lead arrangers and joint book runners, The Royal Bank of Scotland plc, as syndication agent, Banco Bilbao Vizcaya Argentaria, S.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, U.S. Bank National Association, as documentation agents, and Wells Fargo Bank, National Association, as administrative agent (in such capacity, the “Administrative Agent”). Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

[_____] (the “Non-U.S. Lender”) is providing this certificate pursuant to Section 2.16(d) of the Credit Agreement. The Non-U.S. Lender hereby represents and warrants that:

1. The Non-U.S. Lender is the sole record and beneficial owner of the Loans or the obligations evidenced by Note(s) in respect of which it is providing this certificate.

2. The Non-U.S. Lender is not a “bank” for purposes of Section 881(c)(3)(A) of the Internal Revenue Code of 1986, as amended (the “Code”). In this regard, the Non-U.S. Lender further represents and warrants that:

(a) the Non-U.S. Lender is not subject to regulatory or other legal requirements as a bank in any jurisdiction; and

(b) the Non-U.S. Lender has not been treated as a bank for purposes of any tax, securities law or other filing or submission made to any Governmental Authority, any application made to a rating agency or qualification for any exemption from tax, securities law or other legal requirements;

3. The Non-U.S. Lender is not a ten percent (10%) shareholder of the Borrower within the meaning of Section 881(c)(3)(B) of the Code; and

4. The Non-U.S. Lender is not a controlled foreign corporation receiving interest from a related person within the meaning of Section 881(c)(3)(C) of the Code.

[Remainder of page intentionally left blank.]

Exhibits
Credit Agreement

IN WITNESS WHEREOF, the undersigned has executed this certificate as of the date set forth below.

[NAME OF NON-U.S. LENDER]

By: _____
Name:
Title:

Date: _____

Exhibits
Credit Agreement

FORM OF NOTE

THIS NOTE AND THE OBLIGATIONS REPRESENTED HEREBY MAY NOT BE TRANSFERRED EXCEPT IN COMPLIANCE WITH THE TERMS AND PROVISIONS OF THE CREDIT AGREEMENT REFERRED TO BELOW. TRANSFERS OF THIS NOTE AND THE OBLIGATIONS REPRESENTED HEREBY MUST BE RECORDED IN THE REGISTER MAINTAINED BY THE ADMINISTRATIVE AGENT PURSUANT TO THE TERMS OF SUCH CREDIT AGREEMENT.

\$ _____

New York, New York
as of [_____], 201[__]

FOR VALUE RECEIVED, PACIFIC GAS AND ELECTRIC COMPANY, a California corporation (the “Borrower”), DOES HEREBY PROMISE TO PAY to the order of [insert name of Lender] (the “Lender”) at the office of WELLS FARGO BANK, NATIONAL ASSOCIATION, in its capacity as administrative agent, at [_____], in lawful money of the United States of America in immediately available funds, the principal amount of _____ DOLLARS (\$ _____), or, if less, the aggregate unpaid principal amount of all Revolving Loans (as defined in the Credit Agreement referred to below) made by the Lender to the Borrower pursuant to the Credit Agreement referred to below, whichever is less, on such date or dates as is required by said Credit Agreement, and to pay interest on the unpaid principal amount from time to time outstanding hereunder, in like money, at such office, and at such times and in such amounts as set forth in Section 2.11 of said Credit Agreement.

The holder of this Note is authorized to indorse on the schedules annexed hereto and made a part hereof or on a continuation thereof which shall be attached hereto and made a part hereof the date, the Type and amount of each Revolving Loan made pursuant to the Credit Agreement and the date and amount of each payment or prepayment of principal thereof, each continuation thereof, each conversion of all or a portion thereof to another Type and, in the case of Eurodollar Loans, the length of each Interest Period with respect thereto. Each such endorsement shall constitute prima facie evidence of the accuracy of the information indorsed. The failure to make any such endorsement or any error in any such endorsement shall not affect the obligations of the Borrower in respect of any Revolving Loan.

The Borrower hereby waives demand, presentment for payment, protest, notice of any kind (including, but not limited to, notice of dishonor, notice of protest, notice of intention to accelerate or notice of acceleration), other than notice required pursuant to the Credit Agreement and diligence in collecting and bringing suit against any party hereto. The non-exercise by the holder of this Note of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

This Note (a) is one of the promissory notes referred to in the \$750,000,000 Credit Agreement, dated as of June 8, 2010 (as amended, supplemented or otherwise modified from time to

Exhibits
Credit Agreement

time the “ Credit Agreement ”), among the Borrower, the Lenders parties thereto, Wells Fargo Securities LLC and RBS Securities Inc., as joint lead arrangers and joint book runners, The Royal Bank of Scotland plc, as syndication agent, Banco Bilbao Vizcaya Argentaria, S.A., The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, U.S. Bank National Association, as documentation agents, and Wells Fargo Bank, National Association, as administrative agent, (b) is subject to the provisions of the Credit Agreement and (c) is subject to optional prepayment in whole or in part and acceleration of the maturity hereof upon the occurrence of certain events, all as provided in the Credit Agreement. Terms defined in the Credit Agreement are used herein as therein defined.

Exhibits
Credit Agreement

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN OR IN THE CREDIT AGREEMENT, THIS NOTE MAY NOT BE TRANSFERRED EXCEPT PURSUANT TO AND IN ACCORDANCE WITH THE REGISTRATION AND OTHER PROVISIONS OF SECTION 9.6 OF THE CREDIT AGREEMENT.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

PACIFIC GAS AND ELECTRIC COMPANY

By: _____
Name: _____
Title: _____

Exhibits
Credit Agreement

LOANS, CONVERSIONS AND REPAYMENTS OF ABR LOANS

<u>Date</u>	<u>Amount of ABR Loans</u>	Amount Converted to	Amount of Principal of Base	Amount of ABR Loans	Unpaid Principal Balance of	Notation Made
		<u>ABR Loans</u>	<u>Rate Loans Repaid</u>	<u>Converted to Eurodollar Loans</u>	<u>ABR Loans</u>	<u>By</u>

Exhibits
Credit Agreement

LOANS, CONTINUATIONS, CONVERSIONS AND REPAYMENTS OF EURODOLLAR LOANS

<u>Date</u>	<u>Amount of Eurodollar Loans</u>	<u>Amount Converted to Eurodollar Loans</u>	<u>Interest Period and Eurodollar Rate with Respect Thereto</u>	<u>Amount of Principal of Eurodollar Loans Repaid</u>	<u>Amount of Eurodollar Loans Converted to ABR Loans</u>	<u>Unpaid Principal Balance of Eurodollar Loans</u>	<u>Notation Made By</u>
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Exhibits
Credit Agreement

EXHIBIT 12.1
PACIFIC GAS AND ELECTRIC COMPANY
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010	Year Ended December 31,				
			2009	2008	2007	2006	2005
Earnings:							
Net income	\$ 339	\$ 603	\$1,250	\$1,199	\$1,024	\$ 985	\$ 934
Income taxes provision	196	391	482	488	571	602	574
Net fixed charges	200	390	817	860	889	801	589
Total Earnings	<u>\$ 735</u>	<u>\$ 1,384</u>	<u>\$2,549</u>	<u>\$2,547</u>	<u>\$2,484</u>	<u>\$2,388</u>	<u>\$2,097</u>
Fixed Charges:							
Interest on short-term borrowings and long-term debt, net	\$ 182	\$ 355	\$ 754	\$ 794	\$ 834	\$ 770	\$ 573
Interest on capital leases	5	9	19	22	23	11	1
AFUDC debt	13	26	44	44	32	20	15
Total Fixed Charges	<u>\$ 200</u>	<u>\$ 390</u>	<u>\$ 817</u>	<u>\$ 860</u>	<u>\$ 889</u>	<u>\$ 801</u>	<u>\$ 589</u>
Ratios of Earnings to Fixed Charges	<u>3.68</u>	<u>3.55</u>	<u>3.12</u>	<u>2.96</u>	<u>2.79</u>	<u>2.98</u>	<u>3.56</u>

Note: For the purpose of computing Pacific Gas and Electric Company's ratios of earnings to fixed charges, "earnings" represent net income adjusted for the income or loss from equity investees of less than 100% owned affiliates, equity in undistributed income or losses of less than 50% owned affiliates, income taxes and fixed charges (excluding capitalized interest). "Fixed charges" include interest on long-term debt and short-term borrowings (including a representative portion of rental expense), amortization of bond premium, discount and expense, interest on capital leases, AFUDC debt, and earnings required to cover the preferred stock dividend requirements and preferred security distribution requirements of majority-owned trust. Fixed charges exclude interest on tax liabilities .

EXHIBIT 12.2
PACIFIC GAS AND ELECTRIC COMPANY
COMPUTATION OF RATIOS OF EARNINGS TO COMBINED
FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Three Months Ended June 31, 2010	Six Months Ended June 31, 2010	Year Ended December 31,				
			2009	2008	2007	2006	2005
Earnings:							
Net income	\$ 339	\$ 603	\$1,250	\$1,199	\$1,024	\$ 985	\$ 934
Income taxes provision	196	391	482	488	571	602	574
Net fixed charges	200	390	817	860	889	801	589
Total Earnings	\$ 735	\$ 1,384	\$2,549	\$2,547	\$2,484	\$2,388	\$2,097
Fixed Charges:							
Interest on short-term borrowings and long-term debt, net	\$ 182	\$ 355	\$ 754	\$ 794	\$ 834	\$ 770	\$ 573
Interest on capital leases	5	9	19	22	23	11	1
AFUDC debt	13	26	44	44	32	20	15
Earnings required to cover the preferred stock dividend	—	—	—	—	—	—	—
Total Fixed Charges	\$ 200	\$ 390	\$ 817	\$ 860	\$ 889	\$ 801	\$ 589
Preferred Stock Dividends:							
Tax deductible dividends	2	4	9	9	9	12	9
Pre-tax earnings required to cover non-tax deductible preferred stock dividend requirements	3	4	7	7	8	3	12
Total Preferred Stock Dividends	5	8	16	16	17	15	21
Total Combined Fixed Charges and Preferred Stock Dividends	\$ 205	\$ 398	\$ 833	\$ 876	\$ 906	\$ 816	\$ 610
Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends	3.59	3.48	3.06	2.91	2.74	2.93	3.44

Note: For the purpose of computing Pacific Gas and Electric Company's ratios of earnings to combined fixed charges and preferred stock dividends, "earnings" represent net income adjusted for the income or loss from equity investees of less than 100% owned affiliates, equity in undistributed income or losses of less than 50% owned affiliates, income taxes and fixed charges (excluding capitalized interest). "Fixed charges" include interest on long-term debt and short-term borrowings (including a representative portion of rental expense), amortization of bond premium, discount and expense, interest on capital leases, AFUDC debt, and earnings required to cover the preferred stock dividend requirements and preferred security distribution requirements of majority-owned trust. "Preferred stock dividends" represent tax deductible dividends and pre-tax earnings that are required to pay the dividends on outstanding preferred securities. Fixed charges exclude interest on tax liabilities.

EXHIBIT 12.3
PG&E CORPORATION
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010	Year Ended December 31,				
			2009	2008	2007	2006	2005
Earnings:							
Net income	\$ 337	\$ 598	\$1,234	\$1,198	\$1,020	\$1,005	\$ 920
Income taxes provision	187	372	460	425	539	554	544
Fixed charges	216	422	877	907	937	845	639
Pre-tax earnings required to cover the preferred stock dividend of consolidated subsidiaries	(5)	(9)	(16)	(16)	(17)	(15)	(20)
Total Earnings	<u>\$ 735</u>	<u>\$ 1,383</u>	<u>\$2,555</u>	<u>\$2,514</u>	<u>\$2,479</u>	<u>\$2,389</u>	<u>\$2,083</u>
Fixed Charges:							
Interest and amortization of premiums, discounts and capitalized expenses related to short-term borrowings and long-term debt, net	\$ 193	\$ 378	\$ 798	\$ 825	\$ 865	\$ 799	\$ 603
Interest on capital leases	5	9	19	22	23	11	1
AFUDC debt	13	26	44	44	32	20	15
Pre-tax earnings required to cover the preferred stock dividend of consolidated subsidiaries	5	9	16	16	17	15	20
Total Fixed Charges	<u>\$ 216</u>	<u>\$ 422</u>	<u>\$ 877</u>	<u>\$ 907</u>	<u>\$ 937</u>	<u>\$ 845</u>	<u>\$ 639</u>
Ratios of Earnings to Fixed Charges	<u>3.40</u>	<u>3.28</u>	<u>2.91</u>	<u>2.77</u>	<u>2.65</u>	<u>2.83</u>	<u>3.26</u>

Note: For the purpose of computing PG&E Corporation's ratios of earnings to fixed charges, "earnings" represent income from continuing operations adjusted for income taxes, fixed charges (excluding capitalized interest), and pre-tax earnings required to cover the preferred stock dividend of consolidated subsidiaries. "Fixed charges" include interest on long-term debt and short-term borrowings (including a representative portion of rental expense), amortization of bond premium, discount and expense, interest on capital leases, AFUDC debt, and earnings required to cover preferred stock dividends of consolidated subsidiaries. Fixed charges exclude interest on tax liabilities.

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 13a-14(a)

I, Peter A. Darbee, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 of PG&E Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2010

PETER A. DARBEE

Peter A. Darbee
Chairman, Chief Executive Officer, and President

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 13a-14(a)

I, Kent M. Harvey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 of PG&E Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2010

KENT M. HARVEY

Kent M. Harvey

Senior Vice President and Chief Financial Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 13a-14(a)

I, Christopher P. Johns, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 of Pacific Gas and Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2010

CHRISTOPHER P. JOHNS

Christopher P. Johns
President

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECURITIES AND EXCHANGE COMMISSION RULE 13a-14(a)

I, Sara A. Cherry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 of Pacific Gas and Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2010

SARA A. CHERRY

Sara A. Cherry

Vice President, Finance and Chief Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying Quarterly Report on Form 10-Q of PG&E Corporation for the quarter ended June 30, 2010 ("Form 10-Q"), I, Peter A. Darbee, Chairman, Chief Executive Officer, and President of PG&E Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

- (1) the Form 10-Q fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of PG&E Corporation.

PETER A. DARBEE

PETER A. DARBEE

Chairman, Chief Executive Officer, and President

August 4, 2010

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying Quarterly Report on Form 10-Q of PG&E Corporation for the quarter ended June 30, 2010 ("Form 10-Q"), I, Kent M. Harvey, Senior Vice President and Chief Financial Officer of PG&E Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

- (1) the Form 10-Q fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of PG&E Corporation.

KENT M. HARVEY

KENT M. HARVEY

Senior Vice President and
Chief Financial Officer

August 4, 2010

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying Quarterly Report on Form 10-Q of Pacific Gas and Electric Company for the quarter ended June 30, 2010 ("Form 10-Q"), I, Christopher P. Johns, President of Pacific Gas and Electric Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

- (1) the Form 10-Q fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Pacific Gas and Electric Company.

CHRISTOPHER P. JOHNS

CHRISTOPHER P. JOHNS

President

August 4, 2010

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying Quarterly Report on Form 10-Q of Pacific Gas and Electric Company for the quarter ended June 30, 2010 ("Form 10-Q"), I, Sara A. Cherry, Vice President, Finance and Chief Financial Officer of Pacific Gas and Electric Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

- (1) the Form 10-Q fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Pacific Gas and Electric Company.

SARA A. CHERRY

SARA A. CHERRY

Vice President, Finance and Chief Financial Officer

August 4, 2010