

WHY THE CPUC'S TERM SHEET DOES NOT WORK

Overstates Available Cash by More than \$2 Billion

- Fails to account for \$650 million in taxes paid in December 2001.
- Fails to account for \$710 million in taxes (due in 2002) on the \$1.75 billion the CPUC estimates will be earned.
- Fails to provide \$500 million for necessary capital expenditures, such as new distribution lines or gas pipeline replacement projects.
- Miscalculates \$223 million in interest payments on mortgage bonds and other obligations.

Understates Claims by \$2.5 Billion

- Fails to account for \$1.06 billion in general unsecured claims.
- Illegally tries to reinstate \$943 million in debt.
- Removes \$500 million used to pay generators and places the money in another account. PG&E's plan uses the estimated \$500 million in FERC refunds to offset generator claims. The CPUC places the refunds in a trust. As a result, the CPUC will need an additional \$500 million to pay the generator claims.

Does Not Restore Utility to Investment Grade Status

- Keeps the utility at below investment grade status for years to come.
- FERC regulations require either an investment grade rating or being able to post collateral in order to buy power.
- Since the term sheet does not restore PG&E to investment grade status and it will have limited access to the financial markets, it will be extremely difficult for the utility to resume procurement. As a result, the state will have to continue buying power.
- Utility will have limited access to credit necessary to fund necessary infrastructure projects.
- Without access to financial markets, the CPUC proposal would jeopardize PG&E's ability to meet its obligation to serve.

Treats Creditors and Shareholders Unfairly

- Mistreats several groups of creditors, which could lead to years of protracted legal challenges beyond any timeline associated with PG&E's plan.
- Violates fundamental Constitutional principles by taking at least \$1.2 billion from the authorized return on investment and uses the funds to pay creditors.