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JAMES L. LOPES (No. 63678)
JANET A. NEXON (No. 104747)
GARY M. KAPLAN (No. 155530)
HOWARD, RICE, NEMEROVSKI, CANADY, FALK & RABKIN
A Professional Corporation
Three Embarcadero Center, 7th Floor
San Francisco, California 94111-4065
Telephone: 415/434-1600
Facsimile: 415/217-5910

Attorneys for Debtor and Debtor in Possession
PACIFIC GAS AND ELECTRIC COMPANY

UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

In re PACIFIC GAS AND ELECTRIC COMPANY, a California corporation, Debtor. Federal I.D. No. 94-0742640	Case No. 01-30923 DM Chapter 11 Case HEARING Date: June 18, 2001 Time: 10:00 a.m. Place: 235 Pine St., 22nd Floor San Francisco, California Judge: Hon. Dennis Montali

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DECLARATION OF RUSSELL M. JACKSON IN SUPPORT OF DEBTOR'S MOTION FOR ORDER AUTHORIZING (1) CONTINUATION OF PRE-PETITION EMPLOYEE SEVERANCE AND DISPLACEMENT PROGRAMS, (2) ESTABLISHMENT OF MANAGEMENT RETENTION PROGRAM, AND (3) HONORING OF CERTAIN PRE-PETITION EMPLOYEE COMPENSATION

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I, Russell M. Jackson, declare as follows:

1. I am the Vice President of Human Resources of Pacific Gas and Electric Company ("Debtor" or "PG&E"), a position I have held since June 1999. I make this Declaration in support of the Debtor's Motion For Order Authorizing (1) Continuation Of Pre-Petition Employee Severance And Displacement Programs, (2) Establishment Of Management Retention Program, and (3) Honoring Of Certain Pre-Petition Employee Compensation (the "Motion"). This Declaration is based on my personal knowledge of PG&E's operations and financial position. If called as a witness, I could and would competently testify to the facts stated herein.

2. PG&E employs approximately 19,950 workers.

3. In August 1996, the California Legislature enacted Assembly Bill 1890 ("AB 1890"), which restructured the state's electric industry by mandating that electric services be unbundled, and that wholesale markets be opened up to competition by January 1, 1998. AB 1890 generally codified a market structure prescribed by the California Public Utilities Commission (the "CPUC") in its December 1995 Preferred Policy Decision (the "1995 Policy Decision"). The 1995 Policy Decision required PG&E to divest itself of most of its electricity generating capacity. With the CPUC's approval, PG&E subsequently began divesting itself of many of its electricity generation power plants over time.

4. In order to ensure safe and effective operation of critically needed generation sources during a transition of ownership and to soften impacts on employees affected by California's transition to a deregulated environment, AB 1890 requires that any electricity generating facility sold by a utility must continue to be operated and maintained by the utility or an affiliate on behalf of the new owner for a period of two years following the sale, and that reasonable costs associated with "voluntary severance, retraining, early retirement, outplacement, and related benefits" due to plant sales are to be recovered through Competitive Transition Charges.

5. To meet the requirements of AB 1890 and to retain affected employees needed to carry out PG&E's operating and maintenance responsibilities during the two year post-sale

transition period, PG&E established two severance and displacement programs—one for its impacted bargaining-unit employees and the other for its affected non-bargaining unit personnel. The program for bargaining unit employees is the subject of a separate motion to be heard the same day as this Motion. As more fully described in Exhibit 1 attached hereto, the non-bargaining unit severance and displacement program (the "Severance and Displacement Program For Non-Bargaining Unit Employees At Divested Plants") was required to equalize the treatment of essential non-bargaining unit personnel (lower level management workers) at the divested plants with that of bargaining unit employees. I am informed and believe that having these lower level management workers remain in their assignments, many of whom passed up other employment opportunities or delayed their retirement plans to stay with PG&E over the two year transition period, has contributed significantly to the safe operation and orderly transfer of the divested plants.

6. PG&E's power plants were divested in two sets of auctions that were held approximately one year apart. The two-year post-sale transition period for the first set of divested plants ended in 2000 and employees impacted at these facilities have already received all benefits due them under the programs. The second set of plant sales occurred in 1999 and the two-year transition period associated with those plant sales is ending in May of 2001. Since PG&E filed for bankruptcy protection in April, the final payments to employees impacted by the second set of plant sales are apparently pre-petition obligations that require court approval to be honored. Should the Court not authorize payment of these pre-petition obligations, I am informed and believe that PG&E's failure to honor its commitments under this program will not only have repercussions on the impacted employees but also on PG&E's ability to retain all levels of management employees in other sectors, as well.

7. The Severance and Displacement Program For Non-Bargaining Unit Employees At Divested Plants and all reasonable costs resulting from implementation of that program have already passed regulatory muster before the CPUC. In its Decision #00-02-048, issued on February 17, 2000, the CPUC reviewed the basic parameters of this Program in a contested proceeding, and concluded that such Program implementation costs reasonably

incurred by PG&E are recoverable in customer rates in accordance with AB 1890.

8. As set forth in greater detail in Exhibit 1 attached hereto, the Severance and Displacement Program For Non-Bargaining Unit Employees At Divested Plants requires PG&E to make three types of payments to approximately 31 lower-level management employees, at a total estimated cost of approximately $5 million:

(a) Severance—Upon completion of their operating and maintenance duties at the divested plants, employees who no longer have work assignments are entitled to severance payments consistent with severance benefits that PG&E typically extends to employees whose jobs have been eliminated. Under the PG&E severance program in effect at the time of its bankruptcy filing (which is discussed in greater detail in paragraph 10 below and in Exhibit 2 attached hereto), such payments amount to three weeks' pay for each year of service (up to a maximum of 78 weeks of pay) plus a $9,000 payment to cover "COBRA" health insurance costs. The total estimated cost of such payments for the 31 impacted management employees is approximately $3.6 million.

(b) Enhanced Performance Incentive Plan ("EPIP")—EPIP was designed to fulfill PG&E's legal obligation to ensure the divested plants were operated and maintained safely during their transition to their new owners. The EPIP awards payments to non-bargaining unit personnel working at the plants, provided they meet enhanced performance incentives. The EPIP is paid annually over the two-year transition period and is structured to be an addition to the payments provided to all non-bargaining employees under PG&E's previously existing Performance Incentive Plan ("PIP"). PIP payments were designed to provide a payment targeted at 10% of an eligible employee's base annual salary, with actual annual payouts ranging from 0% to 20% depending upon actual results achieved with respect to pre-specified performance goals. The EPIP was designed to increase annual PIP payments received by employees asked to work at divested plants by an additional 0% to 18% of an eligible employee's base annual salary, with the average EPIP payment amounting to 9%. All elements of the EPIP have been paid prior to PG&E's filing for bankruptcy protection, with the exception of the component based on year 2000 performance. The total cost of the earned, but unpaid, year 2000 performance EPIP for the 31 impacted employees is estimated at approximately $450,000.

(c) Transition Bonus—This portion of the program provides a lump sum transition bonus in an amount equal to the PIP plus EPIP for non-bargaining unit personnel working at the divested plants if such employees remain at the plant until final release by PG&E at the very end of the transition period. This final transition payment cannot exceed 75% of the employee's base annual salary. In addition, the combined amount of such transition bonus and any severance payment to which the employee is entitled cannot exceed two times the employee's base annual salary. The total estimated cost of the transition bonuses now due these 31 employees is approximately $960,000.

9. PG&E originally established its "Work Force Management Program" in 1986 at a time when it was undergoing considerable restructuring and reduction in its workforce. The program serves as a tool to enable PG&E to re-size and/or re-shape its workforce to meet its current business needs and conditions. The Work Force Management Program provides employees whose jobs have been eliminated due to PG&E's workforce changes a severance payment determined in accordance with a service and salary based formula. The payment of severance benefits to impacted employees greatly reduces potential litigation regarding their job elimination, which can be extremely time consuming and expensive (sometimes amounting to hundreds of thousands of dollars). The payment formula and other program provisions have been periodically revised and are described in greater detail in Exhibit 2 attached hereto.

10. The severance payment formula under the Work Force Management Program in effect at the time of the filing of PG&E's filing for bankruptcy protection provides PG&E's non-bargaining unit employees whose jobs have been eliminated as a result of operational and/or business conditions with payments equal to three weeks of pay for each year of service, with a minimum of 12 weeks and maximum of 78 weeks of pay. The program also provides for payments ranging from $9,000 to $16,500 to cover "COBRA" health insurance

costs.[1] In order to receive such benefits, an employee must sign an appropriate waiver and release of claims against PG&E.

11. Based on a recent, comprehensive review of severance practices, I am informed and believe that the methodology used for PG&E's Work Force Management Program is consistent with severance programs at other large companies. Indeed, as reflected in Exhibit 3 attached hereto, benchmark information provided by the highly-regarded 1998 Lee Hecht Harrison Severance and Separation Survey performed in conjunction with Workforce Magazine indicates that length of service is the predominant method for calculating severance amounts. That Survey also shows that large corporations with between 5,000 and 25,000 employees generally offer between 6 weeks and 44 weeks of salary as severance — amounts comparable to PG&E's obligations under the Work Force Management Program. I am further informed and believe that the Work Force Management Program is comparable to similar severance programs approved by courts in other large Chapter 11 cases as reflected in Exhibit 4 attached hereto.

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12. In 2000, PG&E terminated 199 management and administrative and technical employees, with an average severance payment of approximately $97,000. In 2001, PG&E has no significant organizational changes underway within the utility that impact regular employees (other than the aforementioned program associated with the last set of generating plant divestitures). However, in the normal course of business, PG&E needs to have its severance program in place so that desired organizational changes and appropriate job eliminations can be implemented. PG&E projects the severance of approximately 10 non-bargaining unit employees under the Work Force Management Program over the course of 2001 (above and beyond the 31 associated with plant divestiture discussed above), resulting in total severance payments of approximately $1 million.

13. PG&E seeks to implement a Management Retention Program to stabilize its

[1] As discussed above, by separate motion to be heard the same day as the present Motion, PG&E seeks to assume a contract providing for, among other things, similar severance and displacement payments to "bargaining unit" (non-management) employees.

operations and ensure the long-term continuity of its business. The Management Retention Program creates incentives for PG&E's most essential employees to remain with the company during at least the pendency of this Chapter 11 case. I am informed and believe that retention of these employees is particularly important in view of the significant challenges that PG&E faces, including not only bankruptcy, but also electrical blackouts, implementation of significant rate increases, and the probability of strong, negative customer reaction to the foregoing.

14. PG&E depends on the dedication and continued employment of certain essential employees for the provision of safe, reliable and responsive service to its customers. As at most corporations, retention packages have been utilized in the past to address specific employment market and business situations.[2] I am informed and believe that the current situation, involving both an energy crisis in California and PG&E's entering bankruptcy proceedings, raises retention issues of a widespread nature that require the use of a more structured program tailored to the situation and consistently applied throughout the utility. PG&E's successful reorganization depends in large part on these same employees. If lost to other employment or retirement, I am informed and believe that these most essential employees would be difficult or impossible to replace. PG&E expects that its Management Retention Program will significantly increase its ability to retain the critical knowledge and

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[2] PG&E Corporation utilizes a number of incentive-based compensation programs which cover officers of itself and its subsidiaries, including Pacific Gas and Electric Company, the utility. For Pacific Gas and Electric Company officers, these programs provide for incentive awards dependent upon the achievement of medium- and long-term corporate objectives. Attached as Exhibit 5 hereto are copies of the relevant pages of the 2001 PG&E Corporation and Pacific Gas and Electric Company Joint Proxy Statement describing these programs, and a description of the PG&E Corporation Senior Executive Retention Program (which was adopted subsequent to the reporting period for the Proxy Statement) listing the six senior Pacific Gas and Electric Company officers who are participants in this program with their participation levels. The incentives for these six senior officers under the Pacific Gas and Electric Company Management Retention Program which is the subject of this Motion are specifically linked to performance milestones related to successful emergence by Pacific Gas and Electric Company from bankruptcy. By contrast, the PG&E Corporation Senior Executive Retention Program is designed to retain senior officers for a longer term and to incent them to achieving overall financial performance of PG&E Corporation.

skills of its most essential management employees. Based on the foregoing, in my opinion, the Program is in the best interests of PG&E and its estate, including all parties in interest.

15. The Management Retention Program, which is described in greater detail in Exhibit 6 attached hereto, provides for payments ranging from 25% to 100% of annual base salary as of the Petition Date (the "Retention Payments") to certain officers and other members of its leadership team if they stay with PG&E over the next several years and continue to contribute to PG&E's successful operation and restructuring during these difficult times. The program classifies eligible participants into four "tiers," with participation ranging from 25% to 100% of eligible employees in each tier. To place a cap on the cost of this program and to ensure that it is employed as a retention tool only where it is needed, no more than one third of the approximately 682 management employees occupying eligible positions in these four tiers (*i.e.*, 226 employees) would be entitled to payments under the Management Retention Program (collectively, the "Participants"). The 226 maximum participation figure is about 1% of PG&E's total workforce. Participants will be selected and approved for participation based on several factors, including their role and impact on the company, their job performance and the degree of risk PG&E faces in losing them over this critical period.

16. Under the Management Retention Program, Retention Payments will be made to Participants in two installments. For all Participants except PG&E's six senior officers (*i.e.* "Tier I"), the first of two equal installments is payable on the earlier of (i) the first business day after the one-year anniversary of PG&E's Chapter 11 filing (April 8, 2002), or (ii) upon PG&E's filing of a Chapter 11 plan of reorganization. The second installment is payable on the earlier of (i) the first business day after the two-year anniversary of PG&E's Chapter 11 filing (April 7, 2003), or (ii) upon the Court's confirmation of a Chapter 11 plan.[3] In

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[3] However, the first installment for Participants in "Tier II" (which includes PG&E's officers other than its six most senior officers classified in Tier I) with less than two years of credited service with PG&E as of the Petition Date will equal one third of their Retention Payment, and their second installment will equal two-thirds of their Retention Payment.

contrast, PG&E's six senior officers in "Tier I" will be entitled to receive the first installment (equal to one-third of their total potential Retention Payment) only if PG&E files a Chapter 11 plan of reorganization by January 1, 2002 (*i.e.*, if PG&E does not file a Chapter 11 plan by this date, such senior officers will not be entitled to one-third of their total potential Retention Payment), and will be entitled to receive the second installment (equal to two-thirds of their total potential Retention Payment) only upon the confirmation of a Chapter 11 plan of reorganization. With certain limited exceptions, to receive Retention Payments, Participants must be employed by PG&E at the time of such payments.

17. I am informed and believe that implementation of retention programs for essential employees is common for companies in bankruptcy proceedings or other difficult transition periods, and as reflected in Exhibit 4 attached hereto, the Management Retention Program is comparable (if not less generous) to similar retention programs approved by courts in other large Chapter 11 cases, when the relative size of the various debtors, number of covered employees, and amount of payments are taken into account.

18. The total estimated cost of all of the Retention Payments under the Management Retention Program is approximately $17.5 million, or an average of approximately $77,000 for each of the 226 Participants.

19. Pursuant to the Motion, PG&E also seeks to pay miscellaneous recognition payments and business incentive program payments that were being processed on the Petition Date and were interrupted due to the bankruptcy filing. PG&E's recognition payments and business incentive programs are designed to strengthen PG&E's position in the marketplace, improve customer service and reduce operating costs. At the time of the Petition Date, approximately 1,000 miscellaneous pre-petition wage-related payments owed to non-bargaining unit employees (collectively, the "Miscellaneous Pre-Petition Employee Payments") were in varying stages of being processed by PG&E. Most employees received these payments, but, as a result of its bankruptcy filing, PG&E was unable to complete the Miscellaneous Pre-Petition Employee Payments to all such employees, with the result that a handful of employees did not receive these payments. Virtually all of these Payments are

owed to administrative and technical and lower-level management employees.

20. The Miscellaneous Pre-Petition Employee Payments, which are described in greater detail in Exhibit 7 attached hereto, total approximately $2 million (or an average payment of about $2,000), and fall into the following three categories:

(a) Corrections to short-term incentive payments and recognition payments for superior work performance paid to employees prior to the Petition Date (63 payments totaling approximately $236,000);

(b) Recognition payments for superior work performance prior to the Petition Date (195 payments totaling approximately $238,000); and

(c) Business incentive program payments based on pre-petition achievement of specified business goals (729 payments totaling approximately $1,540,000).

21. While the dollar amounts for the Miscellaneous Pre-Petition Employee Payments are relatively modest, I am informed and believe that they are significant to the employees involved. I am further informed and believe that, by honoring the Miscellaneous Pre-Petition Employee Payments, PG&E will be able to remedy a perception of unfair treatment among the affected employees due to the fact that other employees were paid for substantially similar work performance or achievement of business goals. I am further informed and believe that the payments will boost employee morale generally, since PG&E's inability to pay wage-related debts to its employees has caused anxiety and has led many of PG&E's employees to question the viability of working for a company in bankruptcy.

I declare under penalty of perjury under the laws of the United States of America and the State of California that the foregoing is true and correct. Executed this 25th day of May, 2001, at San Francisco, California.

Russell M. Jackson

RUSSELL M. JACKSON

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POWER GENERATION MANAGEMENT TRANSITION PLAN GUIDELINES

Objective

The Power Generation Management Transition Plan[1] is designed to provide a payment to *covered employees* affected by the divestiture of fifty percent of PG&E's fossil generation to strengthen their focus on ensuring superior operation of the power plants and to encourage them to remain in their current positions until *released* by PG&E.

Definitions

PIP	PG&E's Performance Incentive Plan
Transition Bonus	Award paid to *covered employees* when *released* from service at the *affected power plants*
Release	Elimination of an employee's position and no viable position is available at the *affected power plants*
Affected Power Plants	Hunter's Point, Moss Landing, Morro Bay and Oakland
Covered Employees	Management employees in a regular position who meet all the eligibility criteria on an annual basis for an enhanced *PIP* award
Plan Year	Twelve calendar months beginning on January 1 and ending December 31 of each year
Plan Duration	Four *plan years*, beginning January 1, 1997 and ending December 31, 2000
Plan	Power Generation Management Transition Plan
Plan Administrator	The *PIP* plan administrator
Transition Period	The period of time at which PG&E completes its obligation to maintain operations at the *affected power plants*. The *transition period* may extend beyond December 31, 2000.

Award Components

The *plan* consists of two components: an enhanced *PIP* target award and a *transition bonus*.

[1] *Plan* was approved 4/22/97 and is retroactive 1/1/97.

EXHIBIT 1

POWER GENERATION MANAGEMENT TRANSITION PLAN GUIDELINES
(continued)

A. Enhanced *PIP* Target Award:

The enhanced *PIP* target award is equal to 15% multiplied by the *covered employee's* base annual salary. The enhanced *PIP* target award will be given in lieu of the regular *PIP* award the employee may have been eligible for under the *PIP* Administrative guidelines.

In the case of a plant closure or transfer of ownership during the *plan year, covered employees* will receive a prorated *PIP* award based on the transfer/closure date of the *affected power plant*. This is an approved exception to the *PIP* Administrative Guidelines which require an eligible employee to complete a minimum of six months of continuous service in an eligible position.

<u>Eligibility for the Enhanced *PIP* Target Award</u>

Eligibility is determined on an annual basis. A management employee is eligible to participate if s/he:

- meets all of the eligibility criteria set forth in the *PIP* Administrative Guidelines with the exception noted above, and
- is a Band I or Band II employee whose regular base position is in an *affected power plant* during the *plan duration*.

The *PIP* award structure and award components for covered employees are as follows:

AWARD STRUCTURE	Corporate Financial Performance	+	Funding Unit Performance	+	Power Plant Team Performance
AWARD COMPONENTS	10%	+	30%	+	60%

B. *Transition Bonus*:

The *transition bonus* will be awarded to *covered employees* who earn an enhanced *PIP* award in any year during the *plan duration* and who are *released* by the *plan administrator*.

The following illustrates how the *transition bonus* is calculated:

If employee is *released* by PG&E and:	S/he will receive:
• accepts a regular, non-rotational position at PG&E	• A *transition bonus* equivalent to the sum of enhanced *PIP* awards earned during the *plan duration* (1997 through 2000) not to exceed 75% of the *covered employee*'s annual salary, or 25% of the *covered employee's* annual salary at the time of *release*, whichever is greater.

POWER GENERATION MANAGEMENT TRANSITION PLAN GUIDELINES
(continued)

If employee is released by PG&E and:	S/he will receive:
continued	In the event that an employee is released to another regular position at PG&E prior to the end of the plan year, the *transition bonus* will be prorated for the partial year worked at an *affected power plant*. An employee must be a regular status management employee in a regular position on PG&E's payroll on December 31 of the year they are released or on the transfer/closure date of the *affected power plant*, in order to receive the *transition bonus* for the partial year worked.
• is severed in accordance with PG&E's Workforce Management Plan (WMP)	• The severance available at the time the employee is severed (provided s/he meets the WMP criteria for such) and a *transition bonus* as specified above. However, in no event shall the total amount of the *transition bonus* and severance received exceed 200% of the *covered employee's* annual salary. This 200% cap includes all severance-related payments.
• is placed in redeployment or a rotational position at PG&E	Payment of the *transition bonus* is deferred until the *covered employee* accepts a regular position or is severed
If the employee chooses to do one of the following without being released:	**S/he will receive:**
• Terminates employment, resigns, or accepts a regular or rotational position at PG&E	• No *transition bonus*.

Administration

PG&E reserves the right to terminate the *Plan* at any time. PG&E also reserves the right to extend the payout of the *transition bonus* beyond December 31, 2000, with no further enhanced *PIP* target or additional crediting to the *transition bonus*. If PG&E extends the *Plan*, all awards will be paid out no later than April 1, 2008. All exceptions to these guidelines will be reviewed on a case-by-case basis and must be submitted to the *Plan Administrator* for consideration. The guidelines are subject to change, should business conditions so warrant.

Plan Administrator - VP HR.

VP and GM - Power Generation

POWER GENERATION MANAGEMENT TRANSITION PLAN GUIDELINES
(continued)

Power Generation Management Transition Plan

Objective

The Power Generation Management Transition Plan is designed to provide a payment to *covered employees* affected by the divestiture of fifty percent of PG&E's fossil generation to strengthen their focus on ensuring superior operation of the power plants and to encourage them to remain in their current positions until *released* by PG&E.

Transition Plan Features

Features	Specifications
Plan Design	The *plan* consists of two components: an enhanced *PIP* target award and a *Transition bonus*. **(A) Enhanced *PIP* Target Award:** **Description:** The enhanced *PIP* target award is equal to 15% multiplied by the *covered* employee's base annual salary. The enhanced *PIP* target award will be given in lieu of the regular *PIP* award the employee may have been eligible for under the *PIP* Administrative guidelines In the case of a plant closure or transfer of ownership during the *plan year*, *covered employees* will receive a prorated *PIP* award based on the transfer/closure date of the *affected power plant*. This is an approved exception to the *PIP* Administrative Guidelines which require an eligible employee to complete a minimum of six months of continuous service in an eligible position. **Eligibility** Eligibility is determined on an annual basis. A management employee is eligible to participate in the enhanced *plan* if s/he: • meets all of the eligibility criteria set forth in the *PIP* Administrative Guidelines with the exception noted above, and • is a Band I or Band II employee whose regular base position is in an *affected power plant* during the *plan duration*.

Features	Specifications
Plan Design (continued)	**Duration:** The *plan duration* will be four *plan years*, beginning January 1, 1997 and ending December 31, 2000. (B) *Transition bonus*: **Description:** A *transition bonus* equivalent to the sum of enhanced *PIP* awards earned during the *plan duration* (1997 through 2000) not to exceed 75% of the *covered employee*'s annual salary, or 25% of the *covered employee's* annual salary at the time of *release*, whichever is greater. In the event that an employee is *released* to another regular position at PG&E prior to the end of the plan year, the *transition bonus* will be prorated for the partial year worked at an *affected power plant*. An employee must be a regular status management employee in a regular position on PG&E's payroll on December 31 of the year they are *released* or on the transfer/closure date of the *affected power plant*, in order to receive the *transition bonus* for the partial year worked If severed, in no event shall the total amount of the *transition bonus* and all severance-related payments received exceed 200% of the *covered employee's* annual salary **Eligibility:** The *transition bonus* will be awarded to *covered employees* who earn an enhanced *PIP* award in any year during the *plan duration* and who are *released* by the *plan administrator*. **Duration:** Until *released* by the *plan administrator* but no later than April 1, 2008
Other Provisions	**The following terms and conditions apply:** • Participation in this *plan* is not a guarantee of continued employment with PG&E. Employees who participate in this *plan* are still subject to all employee work performance and conduct standards. • The enhanced *PIP* award and the *transition bonus* are not considered compensation for purposes of the Savings Fund Plan, Retirement, or any other compensation-related programs. • PG&E reserves the right to terminate the *plan* at any time. • PG&E also reserves the right to extend the payout of *the transition bonus* beyond December 31, 2000, with no further enhanced *PIP* target or additional crediting to the *transition bonus*. If PG&E extends the *transition period*, all awards will be paid out no later than April 1, 2008.

POWER GENERATION MANAGEMENT TRANSITION PLAN GUIDELINES
(continued)

Features	Specifications
Program Administration	**Exceptions:** • All exceptions to these guidelines will be reviewed on a case-by-case basis and should be submitted to the *Plan Administrator* for consideration. The guidelines are subject to change, should business conditions so warrant.
References	**For further information, please refer to:** • the Power Generation Management Transition Plan Guidelines • the *PIP* Administrative Guidelines • PG&E's Workforce Management Plan

Questions and Answers

Q) How do I calculate my enhanced PIP target award?

A) The enhanced PIP formula is an additive one which consists of the following components and weights:

Corporate Financial Performance	Funding Unit Performance	Power Plant Team Performance
10%	30%	60%

The enhanced PIP target award may be expressed as percentages of annual base salary as follows:

Corporate Financial Performance	Funding Unit Performance	Power Plant Team Performance
1.5%	4.5%	9%

The enhanced PIP target award will be modified by corporate, funding unit and power plant team performance for each plan year.

<u>Sample Calculation</u>

Assume:

- **Annual base salary of $50,000**
- **Target participation rate -15%**

- Target amount - $7500
- A performance rating of 1.0 was achieved for each area

Award Component	Target Amount		Component Weight		Rating		Enhanced PIP Award Received
Corporate	$7500	X	10%	X	1.0	=	$ 750
Funding Unit	$7500	X	30%	X	1.0	=	$2,250
Plant	$7500	X	60%	X	1.0	=	$4,500
			Total PIP			=	**$7,500**

Q) How would I calculate my enhanced PIP target award if I am released mid-year from an affected area and placed into a regular job somewhere else in PG&E?

A) The enhanced PIP target award would be prorated based on the number of months the employee worked at the affected power plant. For example, if a Band I employee worked six months in an affected plant and then was placed in a regular position in CES for six months, s/he would be eligible for a prorated award of six months at the enhanced 15% target PIP participation rate and six months of the regular 6% target PIP participation rate. Since funding unit locations cannot be prorated, a decision by the respective funding unit heads will be made as to where the employee made the greatest impact and the employee's award will then be based on the PIP score for that business unit/department.

Q) How do I calculate my transition bonus?

A) In addition to the enhanced PIP awards paid out each of the plan years, an eligible employee will receive a final transition bonus equivalent to the sum of enhanced PIP awards earned during the plan duration (1997 through 2000) or 25% of the eligible employee's annual salary at the time of release, whichever is greater. However, in no event shall the transition bonus exceed 75% of the eligible employee's annual salary.

In the event that an employee is released to another regular position at PG&E prior to the end of the plan year, the *transition bonus* will be prorated for the partial year worked at an *affected power plant*. An employee must be a regular status management employee in a regular position on PG&E's payroll on December 31 of the year they are released or on the transfer/closure date of the *affected power plant*, in order to receive the *transition bonus* for the partial year worked.

The following examples illustrate how this bonus would be calculated:

Example 1:

Let's assume that an employee who stayed until July 1998, was released to accept a job in another business unit, received the following enhanced PIP awards:

PIP Performance Year	Year Paid Out	Enhanced PIP Award Received	
1997	1998	$13,000	
1998	1999	$8,000	($5,000 Enhanced PIP Award)

The employee's annual base salary at the time of the release is $50,000. This employee would receive a transition bonus of $18,000.

Example 2:

Let's assume an employee is released on June 6, 2001 and received the following enhanced PIP awards:

PIP Performance Year	Year Paid Out	Enhanced PIP Award Received
1997	1998	$7.500
1998	1999	$8,000
1999	2000	$8,500
2000	2001	$8,000

The employee's annual base salary at the time of the release is $70,000. The employee in this example would be eligible for a transition bonus of $32,000.

Example 3:

Let's assume an employee is released on June 6, 2001 and received the following enhanced PIP awards:

PIP Performance Year	Year Paid Out	Enhanced PIP Award Received
1997	1998	$15,0000
1998	1999	$16,000
1999	2000	$17,000
2000	2001	$16,000

The employee's annual base salary at the time of the release is $70,000. The employee in this example would be eligible for a transition bonus of $52,500.

Q) Will I receive severance benefits from PG&E in addition to the annual PIP awards and transition bonus?

- **A) You may be eligible for the severance plan at the end of the transition period, if you meet the criteria set forth in PG&E's Workforce Management Plan. However, the Power Generation Management Transition Plan guidelines limit the total combined** payout of the transition bonus and the severance plan to a cap of 200% of the eligible employee's annual salary. This 200% cap includes all severance-related payments.

Q) If I am released in June of 1999 to accept another position at PG&E, when will I receive the enhanced PIP award for 1999 and the transition bonus?

A) You would receive a transition bonus equal to the enhanced PIP awards received for 1997 and 1998 at the time of release. Since the PIP scores for 1999 will not be finalized until February of 2000, you will receive the prorated enhanced PIP as part of the total 1999 PIP award in March of 2000. You will additionally receive a prorated transition bonus based on your prorated enhanced PIP award for 1999 in March of 2000. However, in no event shall the transition bonus exceed 75% of the eligible employee's annual salary.

Q) How will my awards be taxed?

A) The annual payout from the PIP portion and the transition bonus will be taxed the way the regular PIP is taxed. The award is treated as bonus income in the year an employee receives it. The current withholdings formula for 1997 is:

Federal	28%
State	6%
Hospital	1.45%
OASDI	6.2 % (of the first $65,400 of wages)
Wage Benefit	.47% (of the first $31,767 of wages)
SDI	.50% (of the first $31,767 of wages)

This formula is subject to change pursuant to Federal and State law.

Q) Will these awards be counted as income earned when calculating retirement benefits?

A) No. According to PG&E's basic pension benefit formula for management employees, the monthly amount of the basic pension is defined as a monthly amount equal to 1.6 percent of the participant's average basic monthly salary for the final 36 consecutive months of service. Performance incentive awards, such as PIP, are not included as a part of basic monthly salary.

Q) Can I choose to contribute to my 401K plan with the award dollars?

A) No. Performance incentive awards are specifically excluded under the Savings Fund Plan rules.

Q) Can I defer receipt of my transition bonus in order to reduce my tax liability?

A) Yes. You may choose to have your transition bonus paid out over two tax years, just as you can with any severance amount for which you may be eligible.

Q) If I am eligible for severance at the end of the transition period, will I receive the 1997 severance plan?

A) If eligible, you will receive the severance plan that is available at the time of severance.

Q) Why are management employees not being offered the same plan as bargaining unit employees?

A) During the transition period, it is critical to continue to operate these plants safely and reliably. For management employees, this was an opportunity to enhance and expand existing programs to continue the focus on peak performance. In addition, management employees are entitled to assistance and various programs to help them manage through transition that are not offered to bargaining unit employees. These include the management severance plan, enhanced career planning, training and development and relocation assistance.

Q) Who should I call if I have a question about the Management Transition Plan?

A) An e-mail address is being established for employee questions related to divestiture and will be available in a few days. Individual employee or plant specific questions will be routed to local plant management and/or local HR for handling.

Q) Are employees eligible if their base classification is not in one of the affected plants but they are on a long term rotation to one of the affected plants?

A) No. Only those working in a base classification at an affected plant are eligible for the enhanced PIP and transition bonus. Those on rotation into the plant will be eligible for the regular PIP program as set forth in the PIP eligibility guidelines.

Q) Is there a deadline for employees who are out on rotation to an unaffected area to return to their base classification in order to be eligible for the plan?

A) No. Employees wishing to return to their base at an affected plant must abide by the terms of their rotational agreement for release from the rotational assignment.

Q) What happens if I choose to go to another business unit on a regular basis without the permission of the VP of Power Generation?

A) Since you would not have been released by PG&E, you would not be eligible for the transition bonus. You will receive a prorated enhanced PIP if you met the eligibility criteria.

WORK FORCE MANAGEMENT

Human Resources
Administration Guide

January 2000

PAGES 6 – 8 PROVIDE AN OVERVIEW OF THE SEVERANCE PLANS

EXHIBIT 2

OVERVIEWS OF WORK FORCE MANAGEMENT AND SEVERANCE PLANS

These plans are intended to create attrition by offering a targeted group of employees an opportunity to leave the company with severance benefits. A severance may be made available to employees in positions that are eliminated or to employees who are not selected for new or changed positions.

In addition to determining work priorities, by work unit and position, **documentation must be completed to support displacement decisions.** Well-defined criteria must be prepared to support all selection decisions. **A Selection Decision Analysis Form** has been provided in the Tool Kit for Managers and Supervisors Handbook. It is **important to remember** that **documentation must be completed to support all displacement decisions.** Displacement decisions can be made on the basis of an entire facility, division, department, group of employees who report to a particular person, or job category. For more details, see the "Tool Kit for Managers and Supervisors".

Program benefits such as severance payments are derived from the base salary at the time the employee receives redeployment notification. Years of service are counted from the most recent hire date for (in the case of a PG&E Company employee coming from the Corporation or an affiliate, the tenure is transferred). Hours are used for part time employees.

REASSIGNMENT

Where an employee's work in a position is being eliminated, a supervisor may reassign the employee to available work. Additional details can be found on pages 9 & 10 in this Administration Guide.

ELIGIBILITY

Employees must have a minimum of six months continuous service to be eligible for severance (as of their last day on the payroll). Employees who accept a position in PG&E Company, PG&E Corporation or any PG&E affiliate are not eligible.

REDEPLOYMENT PROGRAM

This is a summary of the redeployment program. The program assists displaced employees in their search for internal and external placement opportunities. For complete details see the " Tool Kit for Managers and Supervisors".

- Once the displaced employee receives his/her displacement letter, he/she is assigned to the Redeployment Program for 45 days. After an employee enters the Redeployment Program, he/she has 45 days in which he/she can elect severance. At the conclusion of the 45-day period, if he/she does not secure an internal position or sign the Severance Agreement and Release, he/she is terminated.
- Employees receive outplacement support immediately upon entering the program. Support will include a resume design and job search skills workshop as well as individual counseling. Employees who accept a rotational assignment and are placed into the *Redeployment Program* at the end of the rotation may only attend the outplacement workshop once.

- Employees in the *Redeployment Program* do not receive preference for internal placement. They are responsible for finding internal opportunities. The company will provide assistance through outplacement training and access to JOBS. Employees in the redeployment program may decline any placement opportunities without the forfeiture of severance/leave options.

Repayment Policy

Any employee who was severed from the Company and subsequently accepts an offer with PG&E Company, PG&E Corporation, or any PG&E affiliate will be subject to repay a prorated amount of his/her severance if the former employee is rehired into a regular position. The proration will be calculated as follows:

1. Divide the individual's gross salary at the time of their severance, converted to a monthly rate, into the total gross severance amount. This is the number of months of severance pay the individual received.

2. Divide the net severance received by the total months of severance in step 1. This is the net monthly severance payment received.

3. Subtract the number of months the former employee was off the payroll from the months of severance pay in step 1. This is the number of months of severance to be repaid.

4. Multiply the number of months in step 3 by the monthly net severance in step 2 to get the prorated amount to be repaid.

If the employee is off the payroll for a longer time than the prorated severance period, then there would be no repayment obligation.

Repayment Method

Repayment must be made to PG&E by personal check, certified check or money order, prior to the individual beginning work. The check will be sent to the Work Force Management Coordinator, 245 Market St., San Francisco, Mail Code N3Y, for processing. Any offers discussed or written to former employees who would be affected by this policy should include a discussion of this requirement. The written offer letter must contain the requirement, the amount of repayment due, by what date, how to make the repayment and where to send it, with a copy to the Work Force Management Coordinator.

SEVERANCE PLAN

Professional Leadership 1/2/3 & Administrative/Technical Employees

The severance plan is available to employees whose base positions are in Professional Leadership 1/2/3 and Administrative/Technical who are offered and accept the severance package within 45 days of receiving written notification that their position has been eliminated. Payment is dependent upon the signing of the Severance Agreement and Release during the 45 day period and the expiration of the 7 day revocation period. The plan is composed of:

- Severance Plan pay for full time employees is 3 weeks of base pay per year of service (Part-time is based on hours) with a 12 week minimum, 78 week maximum. For employees in Professional Leadership 3, base annual salary includes the equivalent of the employee's target participation rate in the Performance Incentive (PIP) for the year of termination. The target participation rate equals the amount received if all performance measures were at 1.0 level.
- A lump-sum payment of $9,000 (for PL1/2 and A/T) or a lump-sum payment of $16,650 (for PL3) to be used to cover family needs while transitioning to a new job, which may include such items as benefits continuation, insurance, or other transitional needs.
- Eligibility to receive the company's Outplacement Package. This package provides comprehensive job search support through a contracted outplacement consulting firm selected by the company.

Bargaining Unit

The Severance Plan for bargaining unit employees who are laid off includes IBEW clerical/physical, ESC and IUSO employees and is dependent on the signing of the agreed to Severance Agreement and Release form.

Eligibility:
IBEW clerical and physical Title 200 employees with **one year service** or more, IBEW physical Title 300 with **two years service** or more, ESC employees with **one year service** or more and IUSO employees with **one year service** or more..
Formula:

A) **Four weeks pay** (base classification) **plus two weeks' pay for each year of service**

B) Lump sum payment of **$5,000** to partially off set COBRA and life insurance conversion coverage. The employee has no obligation to use it for COBRA conversion or continued life insurance coverage.

C) Employees who are **rehired**, pursuant to Section **19.16, 206.13, 306.14**, and **22.8** of the applicable agreements, **within 12 months of lay-off** and are subsequently laid off for lack of work within 12 months of being rehired will receive a **prorated severance.** The prorated severance amount will be equal to the difference between the severance amount(s) the employee previously received and the severance amount calculated using the employee's current years of service.

Benchmarking Data

Benchmark information from the 1998 Lee Hecht Harrison Severance and Separation Survey, performed in conjunction with Workforce Magazine, is one of the most comprehensive recent reviews of severance practices. This study is referenced by most compensation consulting firms and other research entities when addressing severance related issues. The study was an update to their initial 1995 effort.

The studies top finding was that length of service is the predominant method for calculating severance amounts. The study noted that the "typical" severance calculation was one week per year of service, with a minimum of 2-4 weeks and a maximum of 26 weeks. The study also noted that larger firms tended to provide more generous severance amounts and set higher minimums and maximums. More specific profiles are noted below.

Minimum and Maximum Severance Amounts

	Officers	Executives	Exempts	Non-Exempts
All Industries Average Min & Max	Min - 11 wks Max – 39 wks	Min - 9 wks Max - 34 wks	Min - 6 wks Max - 29 wks	Min - 5 wks Max - 27 wks
Weeks per yrs of service	51% - 1 week 21% - 2 weeks	57% - 1 week 21% - 2 weeks	66% - 1 week 21% - 2 weeks	70% - 1 week 18% - 2 weeks
Telco/ Utilities Average Min & Max	Min – 5 wks Max – 35 wks	Min – 5 wks Max – 28 wks	Min – 4 wks Max – 27 wks	Min – 4 wks Max – 27 wks
Weeks per yrs of service	39% - 1 week 33% - 2 weeks	50% - 1 week 33% - 2 weeks	63% - 1 week 29% - 2 weeks	59% - 1 week 27% - 2 weeks
5,001 – 25,000 ees Average Min & Max	Min – 13 wks Max – 44 wks	Min- 11 wks Max – 38 wks	Min – 7 wks Max – 32 wks	Min – 6 wks Max – 32 wks
Weeks per yrs of service	48% - 1 week 31% - 2 weeks	55% - 1 week 27% - 2 weeks	67% - 1 week 22% - 2 weeks	72% - 1 week 15% - 2 weeks

PG&E Corp. - based upon the utility plan

3 weeks pay per year of service (12 week minimum and 78 week maximum)
No $9000 lump sum.

NEG – revised in early 2001

>$100,000 salary – 1.5 weeks per year of service – min. 26 wks. max. 52 wks.
<$100,000 salary – 1.5 weeks per year of service – min. 12 wks. max. 45 wks.
Have provided 3 mos. COBRA coverage costs in some individual situations.
Have provided reassignment assistance, but not part of the plan.

EXHIBIT 3

EXHIBIT 4

Comparative Chapter 11 Employment Programs

Company	Retention Program	Severance Program	Bonus Program	Total (est)
Grand Union (Proposed)	$3,600,000 (99 employees) Top 26: 40% - 100% base salary Other 73: 50% yr end bonus (min $5000) Note: $1,250,000 goes to top 4; $690,000 to next 5	$4,700,000 Hourly: 2 – 8 weeks Salaried: 2- 16 weeks Note: approximately $1,000,000 goes to 90 employees included in retention plan	Sale Bonus: (top 9) $1,200,000 base to $7,200,000 at gross sale proceeds of $360,000,000	2x – 3.2x (at $300M)
Best Products (1991 Retail Liquidation)	15% - 30% base (all salaried employees)	(a) store level: 1-6 weeks plus percentage of accrued vacation	Distribution: (3 key employees) $15,000 based on speed and size of distribution to unsecured creditors Recovery: (3 key plus certain others) $200,000 maximum pool on scale based on recovery by unsecured creditors of 60.5% or greater	< 1x
Caldor Corp (1995 Retail Liquidation)	$6,700,000 max payable to 128 associates based on employee grade and weeks worked – total value of pool equals 81.3% of eligible employees' aggregate base salaries			associates
Crystal Apparel (1994 Retail Liquidation)	Incentive Compensation Plan: $2,200,000 to 165 employees based on performance objectives and retention Note: $1,160,000 max goes to officers of the Debtors	12 key employees: 3 months to 1 year salary plus certain other individual perks 2 key executives: 1 year base salary plus perks	Sale Bonus: (certain key executives) $2,000,000 maximum pool (1% of 1st $130,000,000; 5% thereafter) CEO got 20% of pool; 8% cap for all others	max 2x +

Comparative Chapter 11 Employment Programs

Company	Retention Program	Severance Program	Bonus Program	Total (est)
F&M Distributors (1996 Retail Liquidation)		3-12 weeks for salaried HQ employees, district managers, & specific employees	Winddown Incentive: 32 salaried members of wind-down team: based on cash in excess of budgeted ending cash balance of $5,105,000. (5% up to $1M; 10% next $1M; 15% over $2M)	< 1x
PWS Holding (1998 Retail Reorganization)		110 Key Employees: 12 months base for top 2 6 month base for Director 3 month base for all others		max 1x
GST Telecommunications (2000 363 Sale)	11 Senior Mgmt: $2,158,000 316 others: $3,900,000		10 key executives: 0 - $1,500,000 0.4% -1.1% scale based on sale price in excess of $450,000,000	max 2.6x at $600M
Cambridge (2000 Manufacturer 363 Sale)	$2,400,000 (45 employees) CEO & CFO: 100% base salary ($600K) VP Ops & COO: 75% base salary 41 others: 25% to 50% base salary	$2,600,000 (48 employees) CEO & CFO: 100% base salary ($600K) VP ops & COO: 75% base salary 44 others: 25% to 50% base		1.5x - 2x
APS Holdings (1998)	aggregate $400,000 - $900,000 for day to day management based on percent of base for each month they remain employed		Exec Bonus: pool $0 - $364,000 based on how quickly plan is consummated: execs receive 0% - 40% base salary Sale Bonus: (A) for execs responsible for sale of assets (0.45% on 1st $100,000.000; 0.2% over $100,000,000 proceeds sliding to 0.5% above $300,000,000 proceeds) (B) for execs responsible for creditor recovery: 0% - 200% of base salary (25% base if recoveries over $180,000,000 sliding to 200% if recoveries exceed $280,000,000	max 2x

Comparative Chapter 11 Employment Programs

Company	Retention Program	Severance Program	Bonus Program	Total (est)
Pan Am Corp	$2,500,000 pool (25% - 50% salary)			.25x – 0.5x
Safety Kleen (2000 Reorg) ✓	15 Senior Officers: 18 months base 50 Officers & key execs: 12 months base 390 key managers: 6 months base	15 Senior Officers: 2 years base + bonus 50 Officers & Key Execs: 1 year base 390 key managers: 6 months base		3.5x + bonus
Montgomery Ward (1997 Retail Reorg) ✓	$17,600,000 (500 key management) 33% to 75% of base salary	All employees except members of executive committee: 13 weeks – 78 weeks base pay		max 2.25x
Pathmark (2000 prepack) ✓	$4,000,000 for CEO 1x base salary for 4 execs	payment of base salary for 2 years (subject to non-compete)	0.00905 times sale price (approx 47% to CEO, others 8% to 22% share)	CEO: 10x Others: 4.4x to 7x (at $500M)
Optel, Inc. (363 sale?)	4 – 12 months	6 – 24 months	pool based on sliding scale gross proceeds of asset sale; no pool if less than $250M; greater than $250M→ $1.25M + percent of excess ranging from 1% to 5%; CEO, COO each get 22% of pool; general managers get 3% each; M&A consultant gets 22%	up to 3x plus sales bonus

Executive Compensation

Nominating and Compensation Committee Report on Compensation

The Nominating and Compensation Committee of the PG&E Corporation Board of Directors (the "Committee") is responsible for overseeing and establishing executive compensation policies for PG&E Corporation and its subsidiaries, including Pacific Gas and Electric Company. The Committee also oversees the PG&E Corporation Long-Term Incentive Program and other employee benefit plans.

This report relates to the compensation paid to executive officers of PG&E Corporation and Pacific Gas and Electric Company during the fiscal year ended December 31, 2000. Compensation for the Chief Executive Officers of PG&E Corporation and Pacific Gas and Electric Company is approved by their respective Board of Directors based on the recommendation of the Committee, which is composed of independent non-employee directors. In establishing the 2000 compensation of the Chief Executive Officers of PG&E Corporation and Pacific Gas and Electric Company, each Board of Directors approved the recommendations of the Committee without modification Compensation for all other PG&E Corporation and subsidiary officers is approved by the Committee, except that the Committee has delegated to the PG&E Corporation Chief Executive Officer the authority to approve compensation for certain officers of PG&E Corporation and its subsidiaries.

The Committee established compensation programs for 2000 to meet four objectives:

- To emphasize long-term incentives to further align shareholder and officers' interests and focus employees on enhancing total return for the Corporation's shareholders.
- To attract, retain, and motivate employees with the necessary mix of skills and experience for the development of PG&E Corporation's unregulated businesses, as well as the successful operation and expansion of its utility business.
- To minimize short-term and long-term costs and reduce corporate exposure to longer-term financial risk.
- To achieve maximum value from PG&E Corporation's collective workforce by designing compensation programs that facilitate movement by employees among the Corporation and its subsidiaries.

The Committee retains an independent consultant, Hewitt Associates, to help evaluate PG&E Corporation's compensation policies, to provide information about industry compensation practices and competitive pay levels, and to recommend compensation alternatives which are consistent with PG&E Corporation's compensation policies. Founded in 1940, Hewitt Associates is an international firm of consultants and actuaries specializing in the design and administration of employee compensation and benefit programs.

To meet its objective of paying compensation that is competitive with similar companies in 2000, the Committee selected a group consisting of 12 major energy companies (the "comparator group"). These companies were selected by the Committee because they were comparable to PG&E Corporation in size and because their approach to compensation emphasized long-term incentives. All of the companies in the comparator group were included in the Standard & Poor's 500 Stock Index.

For 2000, the Committee established the following specific compensation targets for officers:

- A significant component of every officer's compensation should be tied directly to PG&E Corporation's performance for shareholders.
- Annual cash compensation (base salary and target annual incentive) and benefits should be equal to the average compensation paid to comparable officers of companies in the comparator group.
- For targeted performance, long-term incentives should be equal to the 75th percentile compensation paid to comparable officers of companies in the comparator group.

Finally, in evaluating compensation program alternatives, the Committee considers the potential impact on PG&E Corporation of Section 162(m) of the Internal Revenue Code. Section 162(m) eliminates the deductibility of compensation over $1 million paid to the five highest paid executive officers of public corporations, excluding "performance-based compensation." Compensation programs will qualify as performance-based if (1) the performance targets are pre-established objective standards, (2) the programs have been approved by shareholders, and (3) there is no discretion to modify or alter payments after the performance targets have been established for the year.

EXHIBIT 5

The Committee believes that compensation paid under two of PG&E Corporation's three performance-based plans is deductible under Section 162(m). A substantial portion of the compensation paid to the executive officers of PG&E Corporation and Pacific Gas and Electric Company is paid under these qualifying performance-based plans. Although short-term compensation paid under PG&E Corporation's third performance-based plan will not be excluded from the deduction limit under Section 162(m), payments under this plan are conditioned primarily on the achievement of pre-established corporate financial objectives.

To the extent consistent with the Committee's overall policy of maintaining a competitive, performance-based compensation program, it is PG&E Corporation's intent to maintain the tax deductibility of the compensation which it pays. However, due to the restrictive nature of Section 162(m), technical compliance with its requirements can reduce or eliminate the value of using certain types of plans designed to provide incentives to increase shareholder value. As a result, although the Committee, in designing and maintaining a competitive incentive compensation program, will qualify as much of the compensation for deduction under Section 162(m) as is reasonably possible, such qualification is not a mandatory precondition to payments where technical compliance is inconsistent with the Committee's objective of incenting performance which results in increased shareholder value. It is anticipated that the amount of any tax deduction that may be forgone due to the impact of the Section 162(m) limit will be insignificant.

Principal Components of Compensation

Base Salary

PG&E Corporation Base Salary

PG&E Corporation's executive salaries are reviewed annually by the Committee based on (1) the results achieved by each individual, (2) expected corporate financial performance, measured by combined earnings per share, dividends, and stock price performance, and (3) changes in the average salaries paid to comparable executives by companies in the comparator group.

In setting the 2000 salary levels for PG&E Corporation's executive officers, the Committee's objective was that the overall average of the salaries paid to all officers as a group (including the Chief Executive Officer) should be approximately equal to the target competitive level.

Robert D. Glynn, Jr., Chief Executive Officer of PG&E Corporation, received an annual base salary of $900,000 in 2000. The salary level for Mr. Glynn is comparable to the average salary of chief executive officers of the 12 companies in the comparator group. The overall average of the base salaries received by all PG&E Corporation officers (including Mr. Glynn) for 2000 was comparable to the average salary paid to all officers of the comparator group.

Pacific Gas and Electric Company Base Salary

Pacific Gas and Electric Company's executive salaries are reviewed annually by the Committee based on (1) the results achieved by each individual, (2) expected corporate financial performance, measured by combined earnings per share, dividends, and stock price performance, and (3) changes in the average salaries paid to comparable executives by companies in the comparator group.

In setting the 2000 salary levels for Pacific Gas and Electric Company's executive officers, the Committee's objective was that the overall average of the salaries paid to all officers as a group (including the Chief Executive Officer) should be approximately equal to the target competitive level.

Gordon R. Smith, Chief Executive Officer of Pacific Gas and Electric Company, received an annual base salary of $630,000 in 2000. The salary level for Mr. Smith is comparable to the average salary of senior executives in comparable positions in the 12 companies in the comparator group. The overall average of the base salaries received by all Pacific Gas and Electric Company officers (including Mr. Smith) for 2000 was comparable to the average salary paid to all officers of the comparator group.

Short-Term Incentives

PG&E Corporation Annual Incentive

The PG&E Corporation Short-Term Incentive Plan for 2000 was designed to provide annual incentives to all executive officers based largely on PG&E Corporation's success in meeting the 2000 corporate operating earnings per share objective. This objective emphasizes the impact of on-going results of operations by eliminating the effect of extraordinary gains or losses. Annual incentives for executive officers with operating responsibility for the Corporation's major lines of business, Pacific Gas and Electric Company and PG&E National Energy Group, are based on a combination of corporate operating earnings and the results of their line of business.

At the beginning of the year, target awards are set based on each executive's responsibilities and salary level. Final awards are determined by the Committee and may range from zero to twice the target, depending on the extent to which the corporate operating earnings per share objective is achieved. The Committee has discretion to modify or eliminate awards.

In 2000, PG&E Corporation's corporate operating earnings per share were $2.54. Executive officers whose principal responsibilities are corporate in nature received no Short-Term Incentive Plan awards. Certain executive officers whose principal responsibilities are primarily for operations of the PG&E National Energy Group received awards for the portion of their Short-Term Incentive Plan target based on the performance of that line of business, and received no award for the portion of their target based on corporate performance. Awards paid to executive officers with senior operating responsibility for the PG&E National Energy Group ranged from 93.5 percent to 150 percent of their total target awards.

Pacific Gas and Electric Company Annual Incentive

The Pacific Gas and Electric Company Short-Term Incentive Plan for 2000 was designed to provide annual incentives to all executive officers based on meeting financial, service, and other measures of the Company, as well as those of specific business units and departments.

At the beginning of the year, target awards are set based on each executive's responsibilities and salary level. Final awards are determined by the Committee and may range from zero to twice the target, depending on the extent to which the stated objectives are achieved. The Committee has discretion to modify or eliminate awards.

In 2000, Pacific Gas and Electric Company executive officers received no Short-Term Incentive Plan awards.

Stock Options in Lieu of Short-Term Incentive Plan Awards

In 1998, to further increase the officers' ability to align their individual economic interests with those of the Corporation and its shareholders, the Committee adopted a program whereby eligible officers could elect to convert up to 50 percent of the award they otherwise would be entitled to receive under their respective Short-Term Incentive Plan, and instead receive stock options under the PG&E Corporation Stock Option Plan described below.

Long-Term Incentives

PG&E Corporation Long-Term Incentive Program. The PG&E Corporation Long-Term Incentive Program permits various stock-based incentive awards to be granted to executive officers and other employees of the Corporation and its subsidiaries. The Stock Option Plan and the Performance Unit Plan (each of which is a component of the Long-Term Incentive Program) provide incentives based on PG&E Corporation's financial performance over time.

PG&E Corporation Stock Option Plan. The Stock Option Plan provides incentives based on PG&E Corporation's ability to sustain financial performance over a 3- to 10-year period. Under the Plan, officers, and other key employees of PG&E Corporation and its subsidiaries receive stock options based on their responsibilities and position. These options allow them to purchase a certain number of shares of PG&E Corporation common stock at the market price on the date of grant. Generally, optionees must hold the options for at least two full years and exercise them within 10 years. Options granted in lieu of Short-Term Incentive Plan awards, as discussed above, will be vested immediately, although the options may not be exercised for at least one year after the date of grant. PG&E Corporation does not re-price or change the terms of options once they have been granted.

At the Committee's discretion, stock options may be granted with tandem "stock appreciation rights" which have vesting periods and exercise guidelines that are similar to the options. These rights allow option-holders to surrender their options when they have vested and receive a cash payment equal to the difference between the exercise price and the current market price. No stock appreciation rights have been granted since 1991.

Stock options also may be granted with or without tandem "dividend equivalents" which provide for credits to be made to a dividend equivalent account equal to the current common stock dividend multiplied by the recipient's unexercised options. For options granted with dividend equivalents, option-holders are entitled to receive the amounts accumulated in their dividend equivalent account only when, and to the extent that, the underlying options or stock appreciation rights are exercised. If a stock appreciation right is exercised, the option-holder receives the associated dividend equivalent only if the stock price has appreciated by at least 5 percent per year from the date of grant or by at least 25 percent if the options have been held for more than five years. In June 1997, the Committee adopted the policy that future stock option grants will not include dividend equivalents, and no such grants with dividend equivalents have been made since that time.

The size of the stock option grant for each executive officer of PG&E Corporation and Pacific Gas and Electric Company in 2000 was determined by the Committee based on the Committee's objectives of paying target total compensation at the average total compensation of the companies in the comparator group, and of tying a substantial component of target total compensation directly to financial performance for shareholders. In making stock option grants, the size of each executive officer's stock option grant was determined primarily based on the compensation objectives described above.

PG&E Corporation Performance Unit Plan. The Performance Unit Plan provides incentives based on PG&E Corporation's ability to sustain superior total returns for shareholders (dividends plus stock price appreciation) over a three-year period. Under the Plan, officers of PG&E Corporation and its subsidiaries receive performance units reflecting their level of responsibility. One-third of the units vest each year. At the end of each year, the number of vested performance units is increased or decreased based on PG&E Corporation's three-year total return for shareholders (dividends plus stock price appreciation) as ranked against a group of comparator companies. Each officer receives an incentive payment equal to the final number of vested units multiplied by the average market price of PG&E Corporation common stock during the 30 calendar day period prior to the end of the year. Each time a cash dividend is declared on PG&E Corporation common stock, an amount equal to the cash dividend per share multiplied by the number of units held by a recipient will be accrued on behalf of the recipient and, at the end of the year, the amount of accrued dividend equivalents will be increased or decreased by the same percentage used to increase or decrease the recipient's number of vested performance units for the year.

In determining Performance Unit Plan results for units granted in 1998 and 1999, PG&E Corporation's performance is compared with that of the 49 other largest energy-based companies in the nation. Current year performance is weighted at 60 percent, the performance in the prior year at 25 percent, and the performance in the year before that at 15 percent. For units granted in 2000, PG&E Corporation's performance is compared with that of a group of 12 energy companies selected from the Dow Jones Utility Index and is based on a three-year cumulative total shareholder return rather than on a weighted annual total shareholder return. These changes to the methodology for determining results provide a better gauge of sustained multi-year performance and focus on performance relative to select industry peers.

For the three years ended December 31, 2000, PG&E Corporation's total shareholder return had a weighted average ranking of 44th among the 50 largest energy-based companies in the nation and a cumulative ranking of 11th among the 12 company comparator group. Based on these rankings, officers received no payment under the Plan for 2000 performance.

Executive Stock Ownership Program. Effective January 1, 1998, the Committee adopted the Executive Stock Ownership Program which contains certain stock ownership targets for executives to be achieved within five years after becoming an executive officer. The targets are set as a multiple of the executive's base salary and vary according to the executive's level of responsibility within the Corporation. The executive stock ownership targets are as follows: three times base salary for the Chief Executive Officer of PG&E Corporation; two times base salary for heads of the Corporation's lines of business, and the Chief Financial Officer and the General Counsel of PG&E Corporation; and one and one-half times base salary for the Senior Vice Presidents of PG&E Corporation. To the extent an executive officer achieves and maintains the stock ownership targets within the first three years of becoming an executive officer, the executive officer will be entitled to receive additional common stock equivalents (called Special Incentive Stock Ownership Premiums or SISOPs) to be credited to the deferred compensation portion of his or her Supplemental Retirement Savings Plan account balance. The additional common stock equivalents vest three years after the date of grant, subject to accelerated vesting in accordance with the Officer Severance Policy and upon a change in control of the Corporation. The additional common stock equivalents are subject to forfeiture if the executive fails to maintain the applicable stock ownership target.

Benefits

Benefit plans are designed to meet the individual needs of PG&E Corporation and its subsidiaries and to permit portability of benefits among the Corporation and its subsidiaries. Tax-deferred savings arrangements provide employees with an opportunity to supplement their retirement income through employee and matching contributions by PG&E Corporation or one of its subsidiaries. PG&E Corporation also provides excess retirement benefits for its executive officers based on salary and incentive compensation.

The defined contribution benefit plans of PG&E Corporation and its subsidiaries permit participants in those plans to direct the investment of their contributions into PG&E Corporation common stock, providing another opportunity for executive officers to increase their proprietary interest in PG&E Corporation. The PG&E Corporation Supplemental Retirement Savings Plan also permits the executives who participate in the plan to direct that the return on their deferred compensation be tied directly to the performance of PG&E Corporation common stock.

Summary

We, the members of the Nominating and Compensation Committee of the Board of Directors of PG&E Corporation, believe that the compensation programs of PG&E Corporation and Pacific Gas and Electric Company are successful in attracting and retaining qualified employees and in tying compensation directly to performance for shareholders and service to customers. We will continue to monitor closely the effectiveness and appropriateness of each of the components of compensation to reflect changes in the business environment of PG&E Corporation and Pacific Gas and Electric Company.

April 16, 2001

Nominating and Compensation Committee of the Board of Directors of PG&E Corporation

Carl E. Reichardt, Chair
David A. Coulter
C. Lee Cox
David M. Lawrence, MD

PROGRAM DESCRIPTION

The Senior Executive Retention Program provides certain key officers, who are critical to PG&E Corporation's success and sought after to be CEO's or senior officers in other companies that may have more attractive growth prospects, with a retention mechanism to make them less vulnerable to leaving, by providing them with a strong incentive to stay. The retention mechanism is a multi-year, cliff-vesting incentive award of phantom PG&E Corporation restricted stock units that will vest on December 31, 2004. The value of the award will equal the number of stock units multiplied by the actual stock price at the date of vesting. Vesting is subject to either one of the following conditions:

- 50 percent will automatically vest on December 31, 2004. The remaining 50 percent will vest on December 31, 2004, only if the Corporation's performance, as measured by relative Total Shareholder Return (TSR) on a cumulative basis over four years, is at or above the 55th percentile of its comparator group; or

- if, at the end of the third year of the grant, December 31, 2003, the Corporation's performance as measured by relative TSR on a cumulative basis, is at or above the 75th percentile of its comparator group, the entire grant will vest.

PARTICIPANT LIST

First Name	Last Name	Title	Restricted Stock Units
Smith	Gordon R.	SR. V.P/PRES. & CEO PACIFIC GAS AND ELECTRIC CO.	358,975
Richard	Daniel D.	SR. V.P.-Public Affairs, PACIFIC GAS AND ELECTRIC CO./Sr.V.P. Govt. Relations of PG&E CORP.	128,205
Randolph	James K.	SR. V.P. & Chief of Utility Operations	95,715
Rueger	Gregory M.	SR. V.P. - Generation and Chief Nuclear Officer	95,715
Harvey	Kent M.	SR. V.P. C.F.O. & Treasurer	95,715
Peters	Roger	SR. V.P. & General Counsel	95,715

PACIFIC GAS AND ELECTRIC COMPANY
MANAGEMENT RETENTION PROGRAM

1. **Purpose and Term**

This Management Retention Program (the "Program"), effective as of April 6, 2001 (the "Filing Date"), is intended to enable Pacific Gas and Electric Company (the "Company") to retain quality employees who are critical to the Company's efforts to achieve a successful reorganization following the commencement of a case under Chapter 11 of Title 11 of the United States Code. The Program will provide financial incentives to eligible employees of the Company to continue their employment with the Company through the Payment Dates (defined below).

2. **Administration**

The Plan Administrator shall be the Chairman of the Board of Pacific Gas and Electric Company or his designee who shall manage, operate, and administer the Program for all participants. The Plan Administrator may, in his sole discretion, delegate responsibility to an individual or individuals to handle the day-to-day affairs of the Program. The Plan Administrator is empowered to effectuate the purposes and terms of the Program as set forth herein and is authorized to perform certain duties, including, but not limited to:

(a) the establishment and implementation of rules for the management, operation and administration of the Program;

(b) the determination of the eligibility of employees of the Company for benefits under the Program;

(c) the correction of any defect or omission and the reconciliation of any inconsistency in the Program in such manner and to such extent as it shall deem appropriate, in its sole discretion; and

(d) the interpretation of the Program in good faith to the fullest extent permitted by law, which interpretation shall be final and conclusive upon all persons.

3. **Eligible Employees**

The employees who are eligible to participate in the Program are set forth on Schedule A hereto. The employees who are eligible to participate in the Program shall be designated by the Plan Administrator (each employee eligible to participate in the Program is hereinafter referred to as a "Participant").

EXHIBIT 6

4. **Notice of Participation**

Each Participant shall be notified in writing of his or her eligibility to participate in the Program, subject to all of the conditions specified in the Program and such notice being satisfied. Such notice shall indicate the amount of award for which the Participant is eligible and any additional terms and conditions as the Nominating and Compensation Committee, in its sole and absolute discretion, may determine.

5. **Retention Award**

The amount of the retention award (the "Retention Award") shall vary from 25% to 100% of a Participant's base salary as of the Filing Date as set forth on Schedule A hereto.

6. **Vesting and Payment of Retention Award**

Subject to satisfying the terms of the Program, a Participant's Retention Award shall vest, and be payable, in two installments.

For Tier I Participants, the first installment of one-third of the Retention Award shall be payable as soon as reasonably practicable following the filing of a Chapter 11 plan filed by the Company, provided such filing is made prior to January 1, 2002. The second installment of the remaining two-thirds of the Retention Award shall be payable as soon as reasonably practicable following the confirmation of a Chapter 11 plan.

For Tier II Participants with less than two years of credited service with the Company as of the Filing Date, the first installment of one-third of the Retention Award shall be payable on the earlier of the next business day after the one-year anniversary of the Filing Date or as soon as reasonably practicable following the filing of a Chapter 11 Plan filed by the Company. The second installment of the remaining two-thirds of the Retention Award shall be payable on earlier of the next business day after the two-year anniversary of the Filing Date or as soon as reasonably practicable following the confirmation of a Chapter 11 plan.

For all other Participants, the first installment of one-half of the Retention Award shall be payable on the earlier of next business day after the one-year anniversary of the Filing Date or as soon as reasonably practicable following the filing of a Chapter 11 Plan filed by the Company. The second installment of the remaining one-half of the Retention Award shall be payable on the earlier of the next business day after the two-year anniversary of the Filing Date or as soon as reasonably practicable following the confirmation of a Chapter 11 plan.

Notwithstanding the foregoing, if the bankruptcy court confirms a Chapter 11 plan filed by the Company prior to the payment of any installment, that installment as well as any remaining installments shall be payable as soon as reasonably practicable following such confirmation.

7. **Termination of Participation**

A Participant's participation in the Program shall automatically terminate, without notice to or consent of such Participant, upon the first to occur of any one of the following events with respect to such Participant:

(a) voluntary termination, or termination of employment and ineligible for rehire; and

(b) the Participant's retirement (as determined under the applicable Company retirement program in which the Participant participates).

8. **Proration of Participation**

A Participant's participation in the Program will be prorated to the date of termination for any terminating event other than those identified in Section 7 (for example, a Participant's death). However, if the termination occurs prior to the payment of the first installment, only that installment will be used as basis for the prorated Retention Award.

9. **Binding Authority**

The decisions of the Plan Administrator or his duly authorized delegate shall be final and conclusive for all purposes of the Program, and shall not be subject to any appeal or review.

10. **No Property Interest**

The Program is unfunded and all liabilities hereunder shall be unsecured obligations of the Company.

11. **Other Rights**

The Program shall not affect or impair the rights or obligations of the Company or its subsidiaries or a Participant under any other written contract, arrangement, or pension, profit sharing or other compensation program, and all amounts payable under the Program shall be characterized as special bonuses and not as additional salary for purposes of such other contracts, arrangements or programs.

12. Amendment or Termination

The Company may amend, alter, suspend or terminate the Program at any time, retroactively or otherwise; *provided, however*, unless otherwise required by law or specifically provided herein, no such amendment, alteration, suspension or termination shall be made that would materially impair the previously vested rights of any Participant without his or her written consent

13. Severability

If any term or condition of the Program shall be invalid, illegal or unenforceable, the remainder of the Program, with the exception of such invalid, illegal or unenforceable provision, shall not be affected thereby and shall continue in effect and application to its fullest extent.

14. No Employment Rights

Neither the establishment nor the terms of the Program shall be held or construed to confer upon any Participant the right to a continuation of employment by the Company. Subject to any applicable employment agreement, the Company reserves the right to dismiss any Participant, or otherwise deal with any Participant to the same extent as though the Program had not been adopted.

15. Transferability of Rights

The Company shall have the unrestricted right to transfer its obligations under the Program with respect to one or more Participants to any person, including any purchaser of all or any part of the Company's business. No Participant or spouse of a Participant shall have any right to commute, encumber, transfer or otherwise dispose of or alienate any present or future right or expectancy which the Participant may have at any time to receive payments of benefits hereunder, except to the extent required by law. Any attempt to transfer or assign a benefit, or any rights granted hereunder, by a Participant shall (after consideration of such facts as it deems pertinent), be grounds for terminating any rights of the Participant to any portion of the Retention Award not previously paid.

16. Withholding

The payment of the Retention Award shall be subject to all applicable withholding taxes and deductions.

17. <u>Governing Law</u>

The Program shall be construed, administered, and enforced according to the laws of the State of California, without regard to conflict of law principals.

Adopted pursuant to the delegation contained in the Minutes of the Nominating and Compensation Committee of PG&E Corporation and the Board of Directors of Pacific Gas and Electric Company dated December 20, 2000.

By: Robert D. Glynn Jr. 24 May 2001

Robert D. Glynn, Jr.
Chairman of the Board
Pacific Gas and Electric Company

SCHEDULE A
PARTICIPANTS AND RETENTION AWARDS

Participant Grouping	Types of Employees	Total Number of Employees	Total Number of Participants	Retention Award (percent of base salary)
Tier I	Senior Officers in Bands 2-3	6	6 (100% of employees)	100%
Tier II	Officers in Bands 4-6	17	17 (100% of employees)	100%
Tier III	Directors and Key Attorneys	154	77 (50% of employees)	50-75%
Tier IV	Managers and Other Attorneys	505	126 (25% of employees)	25-50%

Total Participants: 226

Total Awards: $17.5M

Average Award: $77K

Miscellaneous Pre-petition Payments

	Plan	Purpose	Approximate Number of Employees	Approximate Costs
Corrections to Short Term Incentives	PIP and Special Incentives	Corrections to PG&E's Performance Incentive Plan (PIP) Payouts and Special Recognition payments	63	$236,000
Reward and Recognition Program	Reward and Recognition Program	Recognition Payments for superior work prior to the petition date.	195	$238,000
Business Incentive Programs	First Level Supervisor Programs – Utility Operations	To motivate and retain approximately 500 first level supervisors in various Utility Operations departments for the 1st Qtr 2001	265	$471,000
		To motivate and retain approximately 500 first level supervisors in various Utility Operations departments for the 4th Qtr 2000.	352	$360,000
Business Incentive Programs	Gas Procurement (CPIM)	To lower gas costs for customers and to maximize Transwestern cost recovery and CPIM earnings. Discretionary plan that starts at 1.0 PIP score. One year plan for 2000.	23	$200,000
Business Incentive Programs	Business Development	To generate additional revenue through improved use of transmission assets.	42	$450,000
Business Incentive Programs	Dynamic Host Configuration Protocol	Dynamic Host Configuration Protocol was implemented to automate the assignment and management of IP addresses for PG&E host devices.	41	$45,000
Business Incentive Programs	Employee Referral Program	To enhance recruitment of technical professionals through a referral program. Only available for IT and Controller organizations.	6	$13,500
		Sub total Business Incentive Programs	729	$1,539,500

EXHIBIT 7