

NO. 02-72735

IN THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

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CALIFORNIA PUBLIC UTILITIES COMMISSION, ET AL.,  
Petitioners

v.

UNITED STATES NUCLEAR REGULATORY COMMISSION,  
Respondent

and

PACIFIC GAS AND ELECTRIC COMPANY, ET AL.,  
Intervenors

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PETITION FOR REVIEW OF MEMORANDUM AND ORDER CLI-02-16 OF  
THE U.S. NUCLEAR REGULATORY COMMISSION

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SUPPLEMENTAL EXCERPTS OF RECORD OF RESPONDENT-  
INTERVENOR PACIFIC GAS AND ELECTRIC COMPANY

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**RESPONDENT-INTERVENOR  
PACIFIC GAS AND ELECTRIC COMPANY'S  
SUPPLEMENTAL EXCERPTS OF RECORD**

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**Decommissioning Funding Assurance:**  
**Calculation Demonstrating Adequacy of "Prepayment Amount"**

**Diablo Canyon Power Plant, Unit 1  
License Expires September 22, 2021**

**Funding Status Assuming 0.84% Net After-Tax Earnings<sup>20</sup>  
(\$ Millions)**

| Calendar Year | Contribution | Earnings | Balance              | NRC Minimum (2002) | NRC Minimum Status |
|---------------|--------------|----------|----------------------|--------------------|--------------------|
| 2001          | 1.92         | -        | 482.75 <sup>21</sup> | 347.88             | Fully Funded       |
| 2002          | 7.68         | 30.61    | 521.04               | 367.01             | Fully Funded       |
| 2003          | -            | 33.03    | 554.07               | 387.20             | Fully Funded       |
| 2004          | -            | 35.13    | 589.20               | 408.50             | Fully Funded       |
| 2005          | -            | 37.36    | 626.56               | 430.96             | Fully Funded       |
| 2006          | -            | 39.72    | 666.28               | 454.67             | Fully Funded       |
| 2007          | -            | 42.24    | 708.52               | 479.67             | Fully Funded       |
| 2008          | -            | 44.92    | 753.44               | 506.06             | Fully Funded       |
| 2009          | -            | 47.77    | 801.21               | 533.89             | Fully Funded       |
| 2010          | -            | 50.80    | 852.01               | 563.25             | Fully Funded       |
| 2011          | -            | 54.02    | 906.03               | 594.23             | Fully Funded       |
| 2012          | -            | 57.44    | 963.47               | 626.91             | Fully Funded       |
| 2013          | -            | 61.08    | 1,024.55             | 661.39             | Fully Funded       |
| 2014          | -            | 64.96    | 1,089.51             | 697.77             | Fully Funded       |
| 2015          | -            | 69.07    | 1,158.58             | 736.15             | Fully Funded       |
| 2016          | -            | 73.45    | 1,232.04             | 776.64             | Fully Funded       |
| 2017          | -            | 78.11    | 1,310.15             | 819.35             | Fully Funded       |
| 2018          | -            | 83.06    | 1,393.21             | 864.42             | Fully Funded       |
| 2019          | -            | 88.33    | 1,481.54             | 911.96             | Fully Funded       |
| 2020          | -            | 93.93    | 1,575.47             | 962.12             | Fully Funded       |
| 2021          | -            | 72.05    | 1,647.53             | 1,000.33           | Fully Funded       |

<sup>20</sup> The assumption is based upon the current California Public Utilities Commission authorized after-tax earnings rate.

<sup>21</sup> Reflects projected end-of-year 2001 balance, including contributions made in 2001. Liquidation value as of September 30, 2001, was \$473.5 million.

**Calculation Notes for DCP Unit 1**

**Contribution:** PG&E is currently authorized to contribute a total of \$24.003 million per year to the Diablo Canyon Nuclear Decommissioning Master Trusts. Unit 1's portion of the total contribution is \$7.68 million. For 2001, only the 4th Quarter contribution, to be made December 28, 2001, is shown as a contribution. Contributions for the first three Quarters are included in the end-of-year 2001 balance.

**Earnings:** PG&E has assumed after-tax earnings to the trust of 6.34 percent per year. (The liability (cost estimate) is grown at 5.5 percent per year, resulting in a 0.84 percent after-tax real growth rate on the trust.) Earnings are calculated each year by multiplying the prior year's balance by 6.34 percent. Year 2021 earnings are calculated on a partial-year basis.

**Balance:** The end-of-year 2002 balance is determined as follows —

PG&E used the liquidation value of the Unit 1 trust (\$473.5 million) as of September 30, 2001 and determined an end-of-year 2001 balance by escalating the trust asset at 6.34 percent per annum for the remaining 3 months of 2001. After adding in the 4th Quarter 2001 contribution, the resulting end-of-year 2001 balance was \$482.75 million.  $(\$473.5 * (1.0634^{(3/12)}) + \$1.92)$

Contributions of \$7.68 million and earnings of \$30.61 million (calculated at 6.34 percent of the year 2001 balance) are then added to the year end 2001 balance of \$482.75 million to derive the end-of-year 2002 balance of \$521.04 million.

Current year end balances are calculated by adding prior end-of-year balances to the current year's earnings and contributions.

Year 2021 balances are calculated on a partial-year basis.

**NRC Minimum:** The Calendar Year 2002 NRC Minimum for Unit 1 of \$367.01 million is calculated as follows —

PG&E's March 2001 letter to the NRC (DCL-01-026) indicated the total NRC decommissioning fund estimate in January 2001 dollars, based on preliminary October 2000 through January 2001 data, was \$793.4 million. That number represents the combined Unit 1 and Unit 2 NRC decommissioning fund estimate.

PG&E updated the January 2001 estimate to reflect actual October 2000 through January 2001 data. The January 2001 actual combined Unit 1 and Unit 2 NRC decommissioning fund estimate is \$795.6 million.

To determine the end-of-year 2001 total decommissioning fund estimate, PG&E escalated the balance at 5.5 percent per annum for the remaining 11 months of

2001. The resulting end-of-year 2001 balance was \$835.6 million. ( $\$795.6 * (1.055^{(11/12)})$ ).

The \$835.6 million was allocated to Units 1 and 2 using site-specific decommissioning cost estimates prepared for PG&E by TLG, Inc. By Unit, the NRC amount is as follows:

|               | TLG Estimate | Percent of Total | NRC Decom                         |
|---------------|--------------|------------------|-----------------------------------|
| Unit 1        | 436.6        | 41.6 %           | \$347.88 (41.6% * \$835.6)        |
| <u>Unit 2</u> | <u>612.1</u> | <u>58.4 %</u>    | <u>\$487.72</u> (58.4% * \$835.6) |
| Total         | 1,048.7      | 100.0 %          | \$835.6                           |

Years 2002 forward, are determined by multiplying the end-of-year 2001 amount by an escalation factor of 5.5 percent.

**Diablo Canyon Power Plant, Unit 2**  
**License Expires April 26, 2025**

**Funding Status Assuming 0.84% Net After-Tax Earnings<sup>22</sup>**  
**(\$ Millions)**

| Calendar Year | Contribution | Earnings | Balance              | NRC Minimum (2002) | NRC Minimum Status |
|---------------|--------------|----------|----------------------|--------------------|--------------------|
| 2001          | 4.08         | -        | 641.28 <sup>23</sup> | 487.72             | Fully Funded       |
| 2002          | 16.32        | 40.66    | 698.26               | 514.54             | Fully Funded       |
| 2003          | 0.00         | 44.27    | 742.53               | 542.84             | Fully Funded       |
| 2004          | 0.00         | 47.08    | 789.60               | 572.70             | Fully Funded       |
| 2005          | 0.00         | 50.06    | 839.67               | 604.20             | Fully Funded       |
| 2006          | 0.00         | 53.23    | 892.90               | 637.43             | Fully Funded       |
| 2007          | 0.00         | 56.61    | 949.51               | 672.49             | Fully Funded       |
| 2008          | 0.00         | 60.20    | 1,009.71             | 709.47             | Fully Funded       |
| 2009          | 0.00         | 64.02    | 1,073.72             | 748.50             | Fully Funded       |
| 2010          | 0.00         | 68.07    | 1,141.80             | 789.66             | Fully Funded       |
| 2011          | 0.00         | 72.39    | 1,214.19             | 833.09             | Fully Funded       |
| 2012          | 0.00         | 76.98    | 1,291.17             | 878.91             | Fully Funded       |
| 2013          | 0.00         | 81.86    | 1,373.03             | 927.25             | Fully Funded       |
| 2014          | 0.00         | 87.05    | 1,460.08             | 978.25             | Fully Funded       |
| 2015          | 0.00         | 92.57    | 1,552.65             | 1,032.06           | Fully Funded       |
| 2016          | 0.00         | 98.44    | 1,651.09             | 1,088.82           | Fully Funded       |
| 2017          | 0.00         | 104.68   | 1,755.76             | 1,148.71           | Fully Funded       |
| 2018          | 0.00         | 111.32   | 1,867.08             | 1,211.88           | Fully Funded       |
| 2019          | 0.00         | 118.37   | 1,985.45             | 1,278.54           | Fully Funded       |
| 2020          | 0.00         | 125.88   | 2,111.33             | 1,348.86           | Fully Funded       |
| 2021          | 0.00         | 133.86   | 2,245.19             | 1,423.05           | Fully Funded       |
| 2022          | 0.00         | 142.34   | 2,387.53             | 1,501.31           | Fully Funded       |
| 2023          | 0.00         | 151.37   | 2,538.90             | 1,583.89           | Fully Funded       |
| 2024          | 0.00         | 160.97   | 2,699.87             | 1,671.00           | Fully Funded       |
| 2025          | 0.00         | 55.89    | 2,755.76             | 1,701.09           | Fully Funded       |

<sup>22</sup> The assumption is based upon the current California Public Utilities Commission authorized after-tax earnings rate.

<sup>23</sup> Reflects projected end-of-year 2001 balance, including contributions made in 2001. Liquidation value as of September 30, 2001, was \$627.5 million.

**Calculation Notes for DCP Unit 2**

**Contribution:** PG&E is currently authorized to contribute a total of \$24.003 million per year to the Diablo Canyon Nuclear Decommissioning Master Trusts. Unit 2's portion of the total contribution is \$16.32 million. For 2001, only the 4th Quarter contribution, to be made December 28, 2001, is shown as a contribution. Contributions for the first three Quarters are included in the end-of-year 2001 balance.

**Earnings:** PG&E has assumed after-tax earnings to the trust of 6.34 percent per year. (The liability (cost estimate) is grown at 5.5 percent per year, resulting in a 0.84 percent after-tax real growth rate on the trust.) Earnings are calculated each year by multiplying the prior year's balance by 6.34 percent. Year 2025 earnings are calculated on a partial-year basis.

**Balance:** The end-of-year 2002 balance is determined as follows —

PG&E used the liquidation value of the Unit 2 trust (\$627.48 million) as of September 30, 2001 and determined an end-of-year 2001 balance by escalating the trust asset at 6.34 percent per annum for the remaining 3 months of 2001. After adding in the 4th Quarter 2001 contribution, the resulting end-of-year 2001 balance was \$641.28 million.  $(\$627.48 * (1.0634^{(3/12))) + \$4.08$

Contributions of \$16.32 million and earnings of \$40.66 million (calculated at 6.34 percent of the year 2001 balance) are then added to the year end 2001 balance of \$641.28 million to derive the end-of-year 2002 balance of \$698.26 million.

Current year end balances are calculated by adding prior end-of-year balances to the current year's earnings and contributions.

Year 2025 balances are calculated on a partial-year basis.

**NRC Minimum:** The Calendar Year 2002 NRC Minimum for Unit 2 of \$514.54 million is calculated as follows —

PG&E's March 2001 letter to the NRC (DCL-01-026) indicated the total NRC decommissioning fund estimate in January 2001 dollars, based on preliminary October 2000 through January 2001 data, was \$793.4 million. That number represents the combined Unit 1 and Unit 2 NRC decommissioning fund estimate.

PG&E updated the January 2001 estimate to reflect actual October 2000 through January 2001 data. The January 2001 actual combined Unit 1 and Unit 2 NRC decommissioning fund estimate is \$795.6 million.

To determine the end-of-year 2001 total decommissioning fund estimate, PG&E escalated the balance at 5.5 percent per annum for the remaining 11 months of

2001. The resulting end-of-year 2001 balance was \$835.6 million. ( $\$795.6 * (1.055^{(11/12)})$ ).

The \$835.6 million was allocated to Units 1 and 2 using site-specific decommissioning cost estimates prepared for PG&E by TLG, Inc. By Unit, the NRC amount is as follows:

|               | TLG Estimate | Percent of Total | NRC Decom                         |
|---------------|--------------|------------------|-----------------------------------|
| Unit 1        | 436.6        | 41.6 %           | \$347.88 (41.6% * \$835.6)        |
| <u>Unit 2</u> | <u>612.1</u> | <u>58.4 %</u>    | <u>\$487.72</u> (58.4% * \$835.6) |
| Total         | 1,048.7      | 100.0 %          | \$835.6                           |

Years 2002 forward, are determined by multiplying the end-of-year 2001 amount by an escalation factor of 5.5 percent.

**APPLICATION FOR CONSENT TO LICENSE TRANSFERS AND  
CONFORMING LICENSE AMENDMENTS  
FOR DIABLO CANYON POWER PLANT, UNITS 1 AND 2**

For NRC decommissioning purposes, the minimum amount as of December 31, 2001, that would need to be transferred, as a condition of the NRC license transfer, in order to meet NRC requirements, would be approximately \$347.9 million for Unit 1 and \$487.7 million for Unit 2. These amounts would satisfy NRC requirements for financial assurance for decommissioning in the form of prepayment in accordance with 10 CFR 50.75(e)(1)(i).<sup>11</sup> Additional amounts, beyond the NRC minimum and up to the total amount in the Nuclear Decommissioning Trust associated with DCPD at the time of the transfer, will be included in the beneficial interest transferred to Nuclear if and to the extent such transfer is approved by FERC and the Bankruptcy Court, as required.

### 3. Nuclear Insurance

Gen will, upon transfer of the assets and assumption of the licenses, assume the responsibility for providing the financial protection as required by 10 CFR Part 140, and for continuing site insurance coverage as required by Price-Anderson 10 CFR 50.54(w).<sup>12</sup>

Gen's obligations will include the responsibilities with respect to retrospective liability required in accordance with 10 CFR 140.21. Based upon the financial information provided in Enclosure 8, Gen will have the financial ability to meet this obligation.

### G. Antitrust Considerations

The NRC has determined that antitrust reviews of post-operating license transfer applications are neither required nor authorized by the Atomic Energy Act, and therefore no antitrust information is required to be submitted with this post-operating license transfer application.<sup>13</sup>

<sup>11</sup> The NRC formulas in 10 CFR 50.75(c) include only those decommissioning costs incurred by licensees to remove a facility or site safely from service and reduce residual radioactivity to levels that permit: (1) release of the property for unrestricted use and termination of the license; or (2) release of the property under restricted conditions and termination of the license. The cost of dismantling or demolishing nonradiological systems and structures is not included in the NRC decommissioning cost estimates. The costs of managing and storing spent fuel on site until transfer to DOE are not included in the cost formulas. The Nuclear Decommissioning Trust for DCPD currently includes funds for non-NRC decommissioning costs.

<sup>12</sup> PG&E and/or Gen will in due course request modified Price-Anderson indemnity agreements and will make changes to nuclear liability and property coverages to reflect Gen as the operator and Nuclear as the owner, and each as an additional named insured.

<sup>13</sup> Final Rule, Antitrust Review Authority: Clarification, 65 Fed. Reg. 44,649 (July 19, 2000); see also Kansas Gas and Electric Co. (Wolf Creek Generating Station, Unit 1), CLI-99-19, 49 NRC 441 (June 18, 1999).

However, because the Plan calls for a restructuring that would split generation assets from the transmission and distribution businesses, the antitrust conditions currently included in Appendix C of the DCPD licenses would not and could not apply directly to Gen or Nuclear. The conditions also could not apply solely to PG&E.

Under the Plan, reorganized PG&E will be a local electric and gas distribution company serving retail customers in Northern and Central California. The company will have a service territory that covers 70,000 square miles. PG&E will contribute its approximately 18,500 circuit miles of electric transmission lines and cables located in California to ETrans. This will include approximately 1,300 circuit miles of 500 kV lines, 5,300 circuit miles of 230 kV lines, 6,000 circuit miles of 115kV lines and 4,000 circuit miles of 70 and 60 kV lines, and the towers, poles and underground conduit used to support the lines and cables. In addition, ETrans and its subsidiaries will receive all transmission substations, transmission control centers and associated operations systems, junctions and transmission switching stations and associated equipment necessary to support the lines and cables and all of the other land, entitlements, rights of way, access rights, personal, real and intellectual property and the business records necessary to operate the electric transmission business.

Currently, PG&E is a participating transmission owner in the California Independent System Operator (ISO), the entity that operates and controls most of the electric transmission facilities owned by the State's three major investor-owned utilities and provides open access to electric transmission services on a non-discriminatory basis. The ISO uses PG&E's transmission facilities to provide open access transmission service. As part of the restructuring, PG&E will assign to ETrans its contractual obligations as a participating transmission owner in the ISO.<sup>14</sup>

Accordingly, with respect to the existing antitrust license conditions, PG&E proposes to retain those conditions at this time. In order to preserve as nearly as possible the current antitrust obligations, PG&E proposes to retain reorganized PG&E on the license with respect to antitrust conditions and to add ETrans as a licensee for those conditions, as PG&E's successor with respect to the transmission system. PG&E and ETrans would be licensees for the limited purpose of the antitrust license

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<sup>14</sup> In December 1999, the FERC issued its final rule on Regional Transmission Organizations (RTOs) and encouraged utilities that own transmission systems to form RTOs on a voluntary basis. In several orders issued on July 12, 2001, the FERC indicated its strong preference for a single RTO that encompasses most of the Western United States, including California, and potentially Canadian provinces as well, that are interconnected in the region encompassed by the Western Systems Coordinating Council. No RTO is operational in the Western United States at this time. ETrans intends to join a FERC-approved Western RTO at such time as one is established and approved by FERC.

conditions. Along with Gen, PG&E and ETrans will be jointly and severally responsible for those conditions. This arrangement is reflected in the proposed license mark-ups provided in Enclosures 4 and 5.

**H. Restricted Data**

This application does not contain any Restricted Data or other classified defense information, and it is not expected that any such information will become involved. However, Gen and Nuclear will appropriately safeguard such information if any such information does become involved and will not permit any individual to have access to any such information until the Office of Personnel Management (the successor to the Civil Service Commission) shall have made an investigation and report to the NRC on the character, associations, and loyalty of such individual, and the NRC shall have determined that permitting such person to have access to Restricted Data will not endanger the common defense and security of the United States.

**I. No Environmental Impact**

The proposed license transfers and conforming license amendments meet the categorical exclusion criteria of 10 CFR 51.22(c)(21), in that this application does no more than request the approval of a direct transfer of the NRC licenses and the associated conforming amendments to the licenses.

The proposed license transfers and conforming license amendments do not involve any changes to the physical operation of the plants and, accordingly, do not involve any increase in the amount or type of radiological effluents that may be allowed to be released offsite. The proposed transfers and license amendments also do not involve any increase in the amount or type of any non-radiological effluents that may be released offsite. Further, the proposed transfers and license amendments do not involve any increase in individual or cumulative occupational radiation exposure. In sum, the proposed actions will have no environmental impact. Accordingly, if necessary, PG&E requests that the NRC issue and publish a finding of no significant environmental impact pursuant to 10 CFR 51.32 and 51.35.

**IV. Additional Information on Regulatory Issues**

**A. Design and Licensing Bases/Updates to FSAR**

The proposed license transfers and conforming license amendments will designate Gen as the licensee authorized to possess, use, and operate the DCPN nuclear units. The transfers and amendments will not affect the physical configuration of the facilities or alter any substantive Technical Specification requirements under which the units operate. Gen will control or have access to the design and licensing basis documents to

the same extent as PG&E does now, and the proposed transfers and conforming amendments will not affect the design and licensing bases. Changes to the Updated Final Safety Analysis Report necessary to reflect the change in responsible licensee will be incorporated on a schedule that complies with 10 CFR 50.71(e) following NRC approval of the transfers.

**B. Emergency Planning**

Concurrent with the transfers of operating authority, Gen will assume authority and responsibility for functions necessary to fulfill the emergency planning and preparedness requirements of 10 CFR 50.47(b) and Part 50, Appendix E. No changes will be made that reduce the effectiveness of the emergency plans or that adversely impact compliance with the NRC's emergency planning requirements.

Prior to implementation of the reorganization, the emergency plans will be reviewed in detail and any needed changes to the plans or implementing procedures will be made in accordance with 10 CFR 50.54(q) and Part 50, Appendix E, Section V, as appropriate. No major substantive changes to the existing emergency plans presently implemented by PG&E are anticipated as a result of the transfer. Likewise, no substantive changes are anticipated to the existing emergency planning organization.

Generally, the current emergency facilities, equipment, and organizations will be transferred to Gen or Nuclear. As necessary, ownership of off-site emergency sirens will be transferred to Gen or Nuclear and provisions will be made, as needed, for the sirens to continue to be located on poles owned by the distribution company.

As part of the transition process, PG&E will evaluate offsite corporate support for the emergency plan and will make provisions for continued offsite corporate support, if needed. Existing agreements for support from outside organizations and agencies also will be reviewed such that appropriate actions can be taken, at an appropriate time prior to the transfers, to notify the parties to such agreements of the Plan and Gen's anticipated responsibility for management and operation of DCP. Support agreements will be assigned to Gen, if necessary.

**C. Offsite Power**

Offsite power is currently provided to DCP over transmission facilities owned by PG&E and operated by the ISO. As a result of the disaggregation of assets, certain transmission assets will be transferred to ETrans. However, the physical facilities will not change as a result of the change in ownership of and operating authority for DCP. Independent sources of offsite power will continue to be provided to the stations in compliance with 10 CFR Part 50, Appendix A, General Design Criterion 17.

Gen will establish an interconnection agreement with ETrans and will have power for DCPD pursuant to the bilateral contract between Gen and PG&E. Additionally, certain nuclear protocols related to the operation of the transmission system are already established by agreement between PG&E and the ISO, and these nuclear protocols will remain in place. Under an agreement between Gen and ETrans, ETrans will be responsible for the relationship with the ISO. Also, the agreements with ETrans will address continued maintenance of the transmission equipment that ETrans will own.

**D. Exclusion Area Control**

As the current owner and plant operator of DCPD, PG&E has the authority to determine and control activities within the exclusion areas for the DCPD plant site at least to the extent required by 10 CFR Part 100. As a result of the transfer of ownership of DCPD and related assets to Nuclear, and the lease agreement between Nuclear and Gen, Gen will have the required exclusion area control. Nuclear will own, and lease to Gen, essentially the same property as PG&E presently owns and controls, with the exception of certain transmission facilities. With respect to the transmission facilities, maintenance and switchyard agreements with ETrans will provide Gen with the right to determine activities in the exclusion area to the extent necessary to meet Part 100. This authority will extend to any activities of ETrans or other authorized entity with respect to maintenance of the switchyard and transmission facilities.

With respect to other activities unrelated to plant operations that will occur within the exclusion area previously identified in the DCPD Updated Final Safety Analysis Reports, there will be no changes. Gen will assume responsibility for the emergency plans as discussed above.

**E. Security**

Concurrent with the transfer of ownership and operating authority, Gen will assume authority and responsibility for the functions necessary to fulfill the security requirements of 10 CFR Part 73. No material changes are expected to the existing physical security organization, guard training and qualifications, safeguards contingency plans, or equipment. Accordingly, the proposed license transfers will not impact compliance with the NRC's security requirements.

Existing agreements for support from outside organizations and agencies will be reviewed such that appropriate actions can be taken prior to the transfers to notify parties to such agreements of Gen's relationship with PG&E, the plan of reorganization, and Gen's anticipated responsibility for management and operation of DCPD. Support agreements will be assigned to Gen, if necessary.

Any changes to the security plans to reflect the transfer of responsibility will not decrease the effectiveness of the plans and will be made in accordance with 10 CFR 50.54(p).

**F. Quality Assurance**

The proposed transfers will not impact compliance with the quality assurance requirements of 10 CFR Part 50, Appendix B, nor will they reduce the commitments in the NRC-accepted quality assurance programs for DCPP. Concurrent with the transfers of ownership and operating authority, Gen will assume authority and ultimate responsibility for present functions associated with the quality assurance programs. The transfers of the licenses to Gen will not degrade the effectiveness of these functions. Any changes to the Quality Assurance Program to reflect the transition will not reduce the commitments in the quality assurance program description and will be handled in accordance with 10 CFR 50.54(a).

**G. Training**

The proposed license transfer will not impact compliance with the operator re-qualification program requirements of 10 CFR Part 50.54 and related sections, nor maintenance of the Institute of Nuclear Power Operations accreditation for licensed and non-licensed personnel training. Concurrent with the license transfers, Gen will assume responsibility for implementation of the present operator training programs. Changes to the programs to reflect the transition will not decrease the scope of the approved operator requalification program and will be made in accordance with 10 CFR 50.54(i).

**H. Spent Fuel Storage**

Upon transfer of ownership and operating responsibility, Gen will assume responsibility for safe storage of the fuel as one of its DCPP operational responsibilities. Nuclear will assume title to spent nuclear fuel located at DCPP. PG&E will assign to Nuclear its rights and obligations under the Standard Contract with the Department of Energy, as well as related claims.

By separate license and amendment applications, PG&E in the near future will request a site-specific Part 72 license for the proposed DCPP ISFSI and will request related amendments to the DCPP Part 50 license. PG&E anticipates that, given the current anticipated schedules, the Part 72 ISFSI license will be issued after the license transfers requested herein and after the implementation of the proposed reorganization. Accordingly, PG&E anticipates that Gen will become the initial ISFSI licensee as operator of that facility.

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THIS PROPOSED DISCLOSURE STATEMENT IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. THIS PROPOSED DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT.

UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION

**FILED**  
SEP 20 2001  
UNITED STATES BANKRUPTCY COURT  
SAN FRANCISCO, CA

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  
[No Hearing Requested]

HOWARD  
RICE  
NEMEROVSKI  
CANADY  
FALK  
& RABKIN  
A Professional Corporation

**DISCLOSURE STATEMENT FOR PLAN OF REORGANIZATION  
UNDER CHAPTER 11 OF THE BANKRUPTCY CODE FOR  
PACIFIC GAS AND ELECTRIC COMPANY PROPOSED BY  
PACIFIC GAS AND ELECTRIC COMPANY AND PG&E CORPORATION**  
[Dated September 20, 2001]

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1 the Plan represents the best method for the holders of Allowed Claims and Equity Interests to be  
2 paid in full for such Allowed Claims and Equity Interests. The Plan is annexed hereto as Exhibit A  
3 and forms a part of this Disclosure Statement. The summary of the Plan is qualified in its entirety  
4 by reference to the provisions of the Plan.

5 **B. RESTRUCTURING OF THE ELECTRIC TRANSMISSION BUSINESS.**

6 **1. General**

7 On or before the Effective Date, the majority of the assets generally associated with the  
8 Debtor's current electric transmission business (the "ETrans Assets") will be transferred to ETrans  
9 and its subsidiaries or affiliates, and ETrans will operate as a separate electric transmission company  
10 thereafter. Other assets necessary to support the ETrans business, including certain minor assets  
11 currently classified as distribution for ratemaking purposes, will also be transferred by the Debtor to  
12 ETrans or its subsidiaries or affiliates. Specifically, the Debtor will transfer approximately 18,500  
13 circuit miles of electric transmission lines and cables located in California, which will include 1,300  
14 circuit miles of 500 kV lines, 5,300 circuit miles of 230 kV lines, 6,000 circuit miles of 115 kV lines  
15 and 4,000 circuit miles of 70 and 60 kV lines, and the towers, poles and underground conduits used  
16 to support the lines and cables. In addition, ETrans and its subsidiaries or affiliates will receive all  
17 transmission substations, transmission control centers and associated operations systems, junctions  
18 and transmission switching stations and associated equipment necessary to support the lines and  
19 cables and all of the other land, entitlements, rights of way, access rights, personal, real and  
20 intellectual property and the business records necessary to operate the Debtor's electric transmission  
21 business. The Debtor's existing internal telecommunications backbone assets will also be  
22 transferred to ETrans or one of its subsidiaries or affiliates.

23 Pursuant to section 365 of the Bankruptcy Code, the Debtor will also assume and assign  
24 to ETrans certain of the continuing contractual rights and obligations of the Debtor that are  
25 associated with the operation of the electric transmission business, after which the Debtor will be  
26 relieved of any obligations thereunder. Such contracts include those related to service over the  
27 Pacific Intertie, including certain "EHV" transmission agreements and contracts for the ownership,  
28 use and coordinated operation of the California-Oregon Transmission Project. In addition, the

1 Debtor will assume and assign to ETrans several interconnection agreements with utilities and  
2 agencies in the Debtor's service area and certain other entities. ETrans will also enter into contracts  
3 with the Reorganized Debtor to enable the Reorganized Debtor to continue to provide  
4 interconnection and transmission services under contracts to be assumed by the Reorganized Debtor,  
5 including those with (a) the Western Area Power Administration, U.S. Department of Energy and  
6 certain of its customers and (b) the City and County of San Francisco.

7 **2. Formation and Capitalization.**

8 ETrans will be a California limited liability company with Newco as its sole member.  
9 The Debtor will be the sole shareholder of Newco. On or before the Effective Date, the ETrans  
10 Assets set forth on Schedule 7.2(a) to the Plan Supplement will be transferred to ETrans and its  
11 subsidiaries or affiliates in partial exchange for an estimated \$770 million in cash (subject to  
12 adjustment), approximately \$380 million in long-term notes and the assumption by ETrans and its  
13 subsidiaries of certain liabilities and obligations of the Debtor, all as set forth on Schedule 7.2(b) to  
14 the Plan Supplement. Thereafter, but prior to the Reorganized Debtor Spin-Off, the Debtor will  
15 declare and pay a dividend of the outstanding common stock of Newco to the Parent, and ETrans  
16 will continue as an indirect wholly-owned subsidiary of the Parent.

17 **3. Operational Control of ETrans Assets.**

18 Currently, the Debtor is a participating transmission owner in the ISO, the entity that  
19 operates and controls most of the electric transmission facilities owned by the State's three major  
20 investor-owned utilities and provides open access to electric transmission services on a non-  
21 discriminatory basis. As part of the Debtor's participation, the ISO uses the Debtor's transmission  
22 facilities to provide transmission service. On or before the Effective Date, the Debtor will assume  
23 and assign to ETrans certain of its contractual obligations associated with its participation as a  
24 transmission owner in the ISO.

25 In December 1999, the FERC issued its final rule on Regional Transmission  
26 Organizations ("RTO") and encouraged utilities that own transmission systems to form RTOs on a  
27 voluntary basis. In several orders issued on July 12, 2001, the FERC indicated its strong preference  
28 for a single RTO that encompasses most of the Western United States, including California, and

1 potentially Canadian provinces as well, that are interconnected in the region encompassed by the  
2 Western Systems Coordinating Council. No RTO is operational in the Western United States at this  
3 time. ETrans intends to join a FERC-approved Western RTO at such time as one is established and  
4 approved by FERC. If the FERC certifies the ISO as a RTO, ETrans may decide to remain with the  
5 ISO. Prior to any withdrawal from the ISO, ETrans will provide notice of its withdrawal to the ISO  
6 pursuant to the terms of the Transmission Control Agreement.

7 **4. Management and Employees.**

8 A list of the individuals who will initially serve as members of the board of control and  
9 executive officers of ETrans, together with biographical information for such persons, will be  
10 provided supplementally.

11 Most of the current employees of the Debtor who provide services primarily for the  
12 electric transmission business will be transferred to or offered comparable positions with ETrans or  
13 its subsidiaries on or before the Effective Date. Job assignments or employment offers will be made  
14 consistent with the Debtor's and ETrans' respective rights and obligations under applicable law,  
15 labor contracts and policies. The Debtor anticipates that a total of 1,100 to 1,300 managerial,  
16 professional, administrative and union employees will be employed by ETrans and its subsidiaries.  
17 In addition, ETrans will use independent contractors consistent with the historical practices of the  
18 Debtor to perform certain of its core services and provide support during peak service periods.  
19 Certain employees of the Debtor currently provide engineering, maintenance, construction and other  
20 services that relate to both the distribution and electric transmission businesses of the Debtor. After  
21 the Effective Date, such employees may be employees of ETrans or the Reorganized Debtor and  
22 provide services between the Reorganized Debtor and ETrans pursuant to a service and maintenance  
23 agreement to be entered into between ETrans and the Reorganized Debtor to allow for a transition to  
24 independent operations. See Section VI.J. and Section VI.K. of this Disclosure Statement for more  
25 information on separation issues and human resources following the Restructuring Transactions.

26 **5. Regulation.**

27 **a. Regulatory Approvals for Restructuring.**

28 In connection with the transfer of the ETrans Assets to ETrans and its subsidiaries or

1 affiliates, the assumption of certain of the electric transmission contracts by ETrans and the indirect  
2 transfer of interests in ETrans to the Parent, the Debtor will take certain actions with the following  
3 governmental agencies:

- 4 • **FERC:** Pursuant to Section 203 of the FPA, the Debtor will request FERC approval for  
5 the transfer of the ETrans Assets and the interests in ETrans. In reviewing the  
6 application, the FERC will determine if the transfer of such assets and interests is  
7 consistent with the public interest based on the anticipated impact on competition, rates  
8 and regulation. In conjunction with the application, the Debtor may seek a FERC  
9 determination that all assets proposed for transfer to ETrans and its subsidiaries are  
10 under FPA jurisdiction. In addition, the Debtor will request FERC approval under  
11 Section 8 of the FPA in connection with the transfer of transmission line-only licenses to  
12 ETrans. In reviewing the application, the FERC will determine the financial and  
13 technical ability of ETrans to operate the transmission facilities. FERC confirmation,  
14 approval or acceptance will also be requested under Sections 204 and 305 of the FPA  
15 relating to the issuance of securities and assumption of liabilities in connection with the  
16 transfer of interests and, if applicable, the creation of interlocking directorates, and under  
17 Section 205 of the FPA with respect to new or modified service tariffs. In conjunction  
18 with the application under Section 203 of the FPA, ETrans will commit to participate in  
19 a FERC-approved RTO and, as necessary or appropriate to satisfy that commitment,  
20 withdraw from participation in the ISO. Assuming no evidentiary hearing, the Debtor  
21 anticipates that the FERC approvals will be obtained within eight months after the date  
22 the applications are filed. The Debtor currently intends to submit such applications on  
23 or before November 30, 2001.
- 24 • **SEC:** Following the Restructuring Transactions, the Parent will be, as it is currently, a  
25 holding company exempt from registration under Section 3(a)(1) of the Public Utility  
26 Holding Company Act of 1935 ("PUHCA"). As the Parent will own two public utilities  
27 (ETrans and Gen) after the Restructuring Transactions are completed, the Parent will  
28 request SEC approval for the indirect acquisition of the ETrans membership interests  
pursuant to Section 9(a)(2) of PUHCA. There will be a period of time prior to the  
Reorganized Debtor Spin-Off in which the Parent will also own the Reorganized Debtor.  
Approval for such interim ownership will also be sought. In connection with its review  
process, the SEC will examine and, as necessary, determine whether (i) the acquisition  
will unduly concentrate control of utility systems, (ii) the purchase price is reasonable,  
(iii) the acquisition will unduly complicate the capitalization of the resulting system, (iv)  
applicable state laws have been complied with or preempted, and (v) the transaction will  
serve the public interest by facilitating the economic and efficient development of an  
integrated public utility system. Assuming no evidentiary hearing, it is anticipated that  
SEC approval will be obtained within one to three months after all other regulatory  
approvals have been obtained.
- **CPUC:** If the Debtor were not subject to the jurisdiction of the Bankruptcy Court, under  
the California Public Utilities Code the approval of the CPUC would be required to  
transfer many of the ETrans Assets to ETrans and its subsidiaries or affiliates, to transfer  
operational control of its transmission facilities from the ISO to a FERC-approved RTO,  
for the operation of the ETrans Assets and to otherwise effect the Restructuring  
Transactions. In connection with the confirmation of the Plan, however, the Debtor will  
seek an affirmative ruling from the Bankruptcy Court that such approval is not required  
because section 1123 of the Bankruptcy Code preempts such state law.
- **Other Federal Agencies:** The Debtor and ETrans and its subsidiaries or affiliates will  
seek approval of various federal agencies for the transfer of federal permits, rights-of-

1 way and other authorizations as required.

- 2 • Other State and Local Agencies: If the Debtor were not subject to the jurisdiction of the  
3 Bankruptcy Court, the Debtor would seek the approval of numerous state and local  
4 agencies for the transfer and use of various permits, licenses, leases and other  
5 entitlements in connection with the transfer and operation of the ETrans Assets. In  
6 connection with the confirmation of the Plan, however, the Debtor will seek an  
7 affirmative ruling from the Bankruptcy Court that such approvals are not required to  
8 effect the transfers because section 1123 of the Bankruptcy Code preempts such state  
9 and local laws.

10 **b. Post Restructuring Regulation of ETrans.**

11 Upon consummation of the Plan, the operations of ETrans will be subject to the  
12 jurisdiction of the following governmental agencies:

- 13 • FERC: The FERC will have jurisdiction over ETrans' rates, terms and conditions for all  
14 transmission and transmission-related services, including, but not limited to, conditions  
15 of transmission access and interconnection. In addition, the FERC will have jurisdiction  
16 over ETrans' participation in the ISO or any future Western RTO which will have  
17 operating control over the transmission assets pursuant to FERC tariffs.
- 18 • CPUC: The CPUC will retain jurisdiction over siting of transmission construction and  
19 non-rate jurisdiction over certain aspects of ETrans' operations to the extent not  
20 otherwise preempted by the overriding jurisdiction of FERC.
- 21 • Other Federal, State and Local Agencies: The ongoing operations of ETrans will  
22 continue to be subject to a variety of other federal, state and local agencies following  
23 consummation of the Plan.

24 **C. RESTRUCTURING OF THE GAS TRANSMISSION BUSINESS.**

25 **1. General.**

26 On or before the Effective Date, the majority of the Debtor's assets associated with its  
27 current gas transmission business (the "GTrans Assets") will be transferred to GTrans and its  
28 subsidiaries or affiliates and GTrans will operate as a separate interstate gas transmission company  
thereafter. Specifically, the Debtor will transfer approximately 6,300 miles of transmission  
pipelines, three gas storage facilities and certain end-use customer service lines. GTrans and its  
subsidiaries will receive all of the land, entitlements, rights of way, access rights, personal and  
intellectual property and the business records necessary to operate the Debtor's current gas  
transmission business. Pursuant to section 365 of the Bankruptcy Code, the Debtor will also assume  
and assign to GTrans certain of the continuing contractual obligations of the Debtor that are  
associated with the operation of the gas transmission and storage business, after which the Debtor

**Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for  
Pacific Gas and Electric Company**

**Exhibit C (Partial)**

**ETrans**

(\$Millions)

|                                 | 12/31/02 | 12/31/03 | 12/31/04 | 12/31/05 |
|---------------------------------|----------|----------|----------|----------|
| <b>INCOME STATEMENT</b>         |          |          |          |          |
| Total Operating Revenues        |          | 773.8    | 847.0    | 905.5    |
| <b>Operating Expenses:</b>      |          |          |          |          |
| Grid Services                   |          | 263.0    | 260.9    | 258.9    |
| M&O and A&G Costs               |          | 166.3    | 169.4    | 172.6    |
| Depreciation                    |          | 111.4    | 122.3    | 134.8    |
| Property & Other Taxes          |          | 23.6     | 26.9     | 30.0     |
| Total Operating Expenses        |          | 564.3    | 579.6    | 596.3    |
| Operating Income                |          | 209.5    | 267.5    | 309.2    |
| Total Interest Income           |          | 0.0      | 0.0      | 0.0      |
| Total Interest Expense          |          | 96.7     | 101.0    | 111.6    |
| Other Income                    |          | 5.6      | 6.6      | 6.1      |
| Pretax Income                   |          | 118.4    | 173.0    | 203.7    |
| Total Booked Income Taxes       |          | 48.3     | 70.5     | 83.0     |
| Preferred Dividend Req          |          | 0.0      | 0.0      | 0.0      |
| Total Earnings Avail for Common |          | 70.2     | 102.5    | 120.7    |

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**ETrans**

(\$Millions)

|                               | 12/31/02      | 12/31/03      | 12/31/04      | 12/31/05      |
|-------------------------------|---------------|---------------|---------------|---------------|
| <b>BALANCE SHEET</b>          |               |               |               |               |
| <b>Assets:</b>                |               |               |               |               |
| Plant in Service              | 3192.5        | 3514.8        | 3895.3        | 4231.6        |
| Accumulated Depr              | (1135.9)      | (1247.3)      | (1307.4)      | (1381.7)      |
| Net Plant                     | 2056.6        | 2267.5        | 2587.9        | 2850.0        |
| Construction Work in Progress | 57.6          | 58.8          | 60.0          | 61.2          |
| Other Noncurrent Assets       | 0.0           | 0.0           | 0.0           | 0.0           |
| Total Long-term Assets        | 2114.2        | 2326.2        | 2647.9        | 2911.1        |
| <b>Current Assets:</b>        |               |               |               |               |
| Short-term Investments (Net)  | 0.0           | 0.0           | 0.0           | 0.0           |
| Accounts Receivable           | 74.9          | 82.7          | 90.5          | 96.8          |
| Other Current Assets          | 5.8           | 5.9           | 6.1           | 6.1           |
| Total Current Assets          | 80.7          | 88.6          | 96.6          | 102.9         |
| Deferred Charges              | 204.3         | 204.3         | 204.3         | 204.3         |
| <b>TOTAL ASSETS</b>           | <b>2399.2</b> | <b>2619.1</b> | <b>2948.7</b> | <b>3218.3</b> |

**ETrans**

(\$Millions)

|   | 12/31/02      | 12/31/03      | 12/31/04      | 12/31/05      |
|---|---------------|---------------|---------------|---------------|
| <i>Capitalization:</i>                            |               |               |               |               |
| Common Stock Equity                               | 536.3         | 754.3         | 964.8         | 1062.3        |
| Preferred Stock (incl QUIDS)                      | 0.0           | 0.0           | 0.0           | 0.0           |
| Other Long-term Debt                              | 1250.0        | 1250.0        | 1362.8        | 1525.8        |
| <b>Total Capitalization</b>                       | <b>1786.3</b> | <b>2004.3</b> | <b>2327.6</b> | <b>2588.1</b> |
| <i>Current Liabilities:</i>                       |               |               |               |               |
| Short-Term Borrowings (Net)                       | 0.0           | 0.0           | 0.0           | 0.0           |
| Accounts Payable                                  | 42.3          | 42.3          | 42.4          | 42.6          |
| Balancing Accounts Payable                        | 0.0           | 0.0           | 0.0           | 0.0           |
| Accrued Taxes Payable                             | 46.3          | 46.6          | 46.9          | 47.6          |
| Long-Term Debt - Current                          | 0.0           | 0.0           | 0.0           | 0.0           |
| Interest Payable                                  | 0.0           | 0.0           | 0.0           | 0.0           |
| Dividends Payable                                 | 0.0           | 0.0           | 0.0           | 0.0           |
| Other Current Liabilities                         | 42.4          | 42.4          | 42.4          | 42.4          |
| <b>Total Current Liabilities</b>                  | <b>131.0</b>  | <b>131.3</b>  | <b>131.7</b>  | <b>132.5</b>  |
| <i>Deferred Credits and Other NC Liabilities:</i> |               |               |               |               |
| Deferred Income Taxes                             | 307.3         | 313.7         | 320.2         | 328.8         |
| Deferred ITC                                      | 14.2          | 13.6          | 13.1          | 12.6          |
| Noncurrent Balancing Acct Liab                    | 0.0           | 0.0           | 0.0           | 0.0           |
| Customer Advances for Construction                | 0.0           | 0.0           | 0.0           | 0.0           |
| Other Deferred Credits                            | 155.1         | 155.7         | 156.2         | 156.3         |
| Other Noncurrent Liab.                            | 5.2           | 0.5           | 0.0           | 0.0           |
| <b>Total Deferred Credits &amp; NC Liab</b>       | <b>481.9</b>  | <b>483.5</b>  | <b>489.5</b>  | <b>497.8</b>  |
| <b>TOTAL CAPITAL &amp; LIABILITIES</b>            | <b>2399.2</b> | <b>2619.1</b> | <b>2948.7</b> | <b>3218.3</b> |

## ETrans

(\$Millions)

12/31/02      12/31/03      12/31/04      12/31/05

**CASH FLOW STATEMENT***Cash Flows From Operations:*

|                                 |              |              |              |
|---------------------------------|--------------|--------------|--------------|
| Net Income                      | 70.2         | 102.5        | 120.7        |
| Depreciation                    | 111.4        | 122.3        | 134.8        |
| Change in Deferred Taxes        | 6.4          | 5.9          | 8.2          |
| Change in Accts Receivable      | (7.8)        | (7.8)        | (6.3)        |
| Change in Inventories           | 0.0          | 0.0          | 0.0          |
| Change in Accts Payable         | 0.1          | 0.1          | 0.1          |
| Change in Accrued Taxes Payable | 0.3          | 0.3          | 0.7          |
| Change in Other Working Capital | (0.0)        | 0.0          | 0.0          |
| Other Net Cash from Operations  | (6.3)        | 0.0          | 0.0          |
| <b>Net Cash from Operations</b> | <b>174.3</b> | <b>223.3</b> | <b>258.2</b> |

*Investing Activities:*

|                                   |                |                |                |
|-----------------------------------|----------------|----------------|----------------|
| Capital Expenditures              | (322.3)        | (444.0)        | (398.1)        |
| Other Net Investing Activities    | 0.0            | 0.0            | 0.0            |
| <b>Net Cash Used in Investing</b> | <b>(322.2)</b> | <b>(444.0)</b> | <b>(398.1)</b> |

*Financing Activities:*

|                                   |              |              |              |
|-----------------------------------|--------------|--------------|--------------|
| Common Stock Issued (Repurchased) | 148.0        | 107.9        | (23.2)       |
| Preferred Stock Issued            | 0.0          | 0.0          | 0.0          |
| Preferred Stock redeemed          | 0.0          | 0.0          | 0.0          |
| Long-term Debt Issued             | 0.0          | 112.8        | 163.0        |
| Long-term Debt matured/redeemed   | 0.0          | 0.0          | 0.0          |
| Long-term Debt purch/sinking      | 0.0          | 0.0          | 0.0          |
| Change in Short-term Position     | 0.0          | 0.0          | 0.0          |
| Dividends Disbursed               | 0.0          | 0.0          | 0.0          |
| Other Net Financing Activities    | 0.0          | 0.0          | 0.0          |
| <b>Net Cash Used in Financing</b> | <b>148.0</b> | <b>220.7</b> | <b>139.8</b> |

|                           |            |            |            |
|---------------------------|------------|------------|------------|
| <b>Net Change in Cash</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |
|---------------------------|------------|------------|------------|