CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

STAFF REPORT

ISSUE: Pacific Gas and Electric Company (PG&E) requests an amendment to Resolution 08-25, adopted on August 21, 2008, in order to extend the date for the issuance of $50,000,000 of unissued revenue bonds authorized by Resolution 08-25 to a time no later than August 25, 2009.

NEED FOR AMENDMENT: Section 6 of Resolution 08-25 authorized the Treasurer to sell or to exchange the revenue bonds authorized by Resolution 08-25 (2008 Bonds) for a like amount and series of 2005 Bonds within 90 days of receipt of a certified copy of Resolution 08-25. All but $50,000,000 of the authorized 2008 Bonds were issued on or before October 29, 2008. A certified copy of Resolution 08-25 was delivered to the Treasurer's office on November 13th, 2008, effectively establishing February 11th, 2009 as the last day to issue 2008 Bonds.

BACKGROUND INFORMATION: On August 21, 2008, the I-Bank approved Resolution 08-25 authorizing the issuance of refunding revenue bonds (2008 Bonds) in an amount not to exceed $453,550,000 to exchange for a like amount and series of revenue refunding bonds issued by the I-Bank in 2005 (2005 Bonds). Concurrently with the exchange of the 2008 Bonds for the 2005 Bonds, the 2005 Bonds would be canceled. A copy of Resolution 08-25 and the Staff Report dated August 21, 2008 are attached for a more complete description of the exchange and financing structure (see **Attachment A**).

Subsequent to the adoption of Resolution 08-25, on September 22nd and October 29th, 2008, a total of $403,550,000 of 2008 Bonds were issued and exchanged for 2005 Bonds identified as Series 2005A, 2005B, 2005C, 2005D, 2005F and 2005G. Series 2005E remains outstanding in the amount of $50,000,000.

RECOMMENDATION: Staff recommends approval of Resolution 09-03 authorizing an amendment to Resolution 08-25 to extend the date for the issuance and sale of the unissued amount of those revenue bonds authorized by Resolution 08-25 in an aggregate principal amount not to exceed $50,000,000 to a date not later than August 25, 2009.

Attachment A - Resolution 08-25 and August 21, 2008 Staff Report

RESOLUTION NO. 08-25

RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK APPROVING AND AUTHORIZING THE ISSUANCE AND SALE OF REVENUE BONDS ON BEHALF OF THE PACIFIC GAS AND ELECTRIC COMPANY IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED $453,550,000 IN EXCHANGE FOR CERTAIN REVENUE BONDS CURRENTLY OUTSTANDING, THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS HEREIN SPECIFIED AND OTHER MATTERS RELATING THERETO

WHEREAS, the California Infrastructure and Economic Development Bank, an entity within the Business, Transportation and Housing Agency of the State of California (the "Issuer"), was established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division 1 of Title 6.7 of the California Government Code (commencing with California Government Code Section 63000), as now in effect and as it may be amended or supplemented (the "Act"), for the purpose of, among other things, financing or refinancing economic development facilities for projects located within the State of California (the "State"), including real and personal property, structures, buildings, equipment, and supporting components thereof that are used to provide economic development facilities, and all facilities or infrastructure necessary or desirable in connection therewith;

WHEREAS, pursuant to Section 63045(c) of the California Government Code (the "Government Code"), the Issuer is authorized to issue tax exempt revenue bonds pursuant to Chapter 5 of the Act to provide financing for economic development facilities compatible with the public interest as specified in Section 63046;

WHEREAS, pursuant to Section 63081 of the Government Code, the Issuer is authorized to issue bonds for the purpose of refunding any bonds, notes or other securities of the Issuer then outstanding, including the payment of any interest accrued, or to accrue, on the earliest of any subsequent date of redemption, purchase, or maturity of these bonds;

WHEREAS, pursuant to Section 63025.1(j) of the Government Code, the Issuer is authorized to make loans to any sponsor, in accordance with an agreement between the Issuer and the sponsor to refinance indebtedness incurred by the sponsor in connection with projects undertaken and completed prior to any agreement with the Issuer or expectation that the Issuer would provide financing pursuant to the Act;

WHEREAS, the Issuer issued its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005A (AMT), in the aggregate principal amount of $74,275,000; its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005B (AMT), in the aggregate principal amount of $74,275,000; its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005C (AMT), in the aggregate principal amount of $80,000,000; its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005D (AMT), in the aggregate principal amount of $80,000,000; its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005E (non-AMT), in the aggregate principal amount of $50,000,000; its

Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005F (non-AMT), in the aggregate principal amount of $50,000,000; and its Revenue Refunding Bonds (Pacific Gas and Electric Company) Series 2005G (non-AMT), in the aggregate principal amount of $45,000,000 (collectively, the "2005 Bonds"), and loaned the proceeds thereof to Pacific Gas and Electric Company (the "Borrower") pursuant to the Loan Agreements relating to the 2005 Bonds, each dated as of May 1, 2005 and by and between the Issuer and the Borrower, to refinance certain air and water pollution control and sewage and solid waste disposal facilities located in Lake and Sonoma Counties (the "Geysers Project"), as well as certain air and water pollution control and sewage and solid waste disposal facilities located at the Diablo Canyon Nuclear Power Plant (the "Diablo Canyon Project" and together with the Geysers Project, the "Projects"), which Sidley Austin Brown & Wood LLP, now Sidley Austin LLP, as bond counsel ("Bond Counsel") previously determined are "exempt facilities" under Section 103(b)(4) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), and which were originally owned and operated by the Borrower;

WHEREAS, the Issuer has been informed by the Borrower that the Geysers Project was subsequently transferred to Geysers Power Company, LLC, which has agreed to use the Geysers Project solely as pollution control facilities within the meaning of Section 103(b)(4)(F) of the 1954 Code, and the regulations thereunder, as in effect prior to August 15, 1986, and continue to own and operate the Geysers Project in such manner, for so long as tax-exempt bonds issued to finance or refinance the Geysers Project are outstanding;

WHEREAS, the 2005 Bonds initially bore interest at an Auction Rate (as such term is defined in each of the Indentures of Trust, dated as of May 1, 2005 (collectively, the "2005 Indentures"), each by and between the Issuer and Deutsche Bank National Trust Company, as trustee), and each series of the 2005 Bonds is insured by a separate financial guaranty insurance policy (the "2005 Bond Insurance Policies") issued by Ambac Assurance Corporation, a Wisconsin domiciled stock insurance company (the "2005 Bond Insurer");

WHEREAS, in response to market disruptions associated with the 2005 Bond Insurer, the Borrower has purchased and presently is the beneficial owner of all the 2005 Bonds;

WHEREAS, the Borrower has requested the Issuer to issue its refunding revenue bonds in one or more series in an aggregate principal amount not to exceed $453,550,000 (the "Bonds") to assist the Borrower in the refinancing of the 2005 Bonds;

WHEREAS, when issued, the Bonds will be exchanged for the 2005 Bonds; upon such exchange, each series of the 2005 Bonds will be delivered to the trustee for such series of the 2005 Bonds for cancellation and each loan associated with such series of the 2005 Bonds will be cancelled;

WHEREAS, the Bonds initially will not be insured by the 2005 Bond Insurance Policies or by any other financial guaranty insurance policies;

WHEREAS, Bond Counsel has advised that the transactions contemplated by this Resolution will not result in there being a "new issue" of obligations for federal income tax purposes; rather, Bond Counsel has advised that the Bonds will be treated as the same debt instruments as the 2005 Bonds for purposes of Sections 103 and 141-150 of the Internal Revenue Code of 1986, as amended and Section 103 of the 1954 Code;

WHEREAS, the Borrower is a "participating party" and the Projects are "economic development facilities" and therefore the Borrower is a "sponsor" within the meaning of the Act;

WHEREAS, there is now on file with the Secretary of the Issuer the following:

(a) a proposed form of Indenture of Trust (the "Indenture"), one or more of which are to be entered into by and between the Issuer and Deutsche Bank National Trust Company, as trustee (the "Trustee"), providing for the authorization and issuance of Bonds in one or more series, each series to be dated the date of delivery thereof;

(b) a proposed form of Loan Agreement (the "Loan Agreement"), one or more of which are to be entered into by and between the Issuer and the Borrower in connection with the issuance of one or more series of Bonds; and

(c) a proposed form of Bond and Loan Exchange Agreement (the "Exchange Agreement"), one or more of which are to be entered into by and among the Issuer, the Borrower and the Treasurer of the State, in connection with the issuance of one or more series of Bonds by the Issuer to the Borrower;

WHEREAS, final approval of the above agreements and certain other documents relating to the Bonds is now sought;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the California Infrastructure and Economic Development Bank, as follows:

Section 1. The form of Indenture on file with the Secretary of the Issuer is hereby approved, and each of the Executive Director and the Chair of the Issuer, or the Chair's designee, acting alone, is hereby authorized and empowered to execute by manual or facsimile signature and deliver to the Trustee, and the Secretary of the Issuer is authorized to attest to said signatures, with respect to each series of the Bonds, an Indenture in substantially the form of the Indenture on file with the Secretary of the Issuer, with such changes and insertions therein (including, without limitation, changes or insertions appropriate to reflect the form of credit enhancement and/or liquidity support, if any, for such series of the Bonds) as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Issuer, such approval to be conclusively evidenced by the delivery thereof.

Section 2. The form of Loan Agreement on file with the Secretary of the Issuer is hereby approved; and each of the Executive Director and the Chair of the Issuer, or the Chair's designee, acting alone, is hereby authorized and empowered to execute by manual or facsimile signature and deliver to the Borrower, and the Secretary of the Issuer is authorized to attest to said signatures, with respect to each series of the Bonds, a Loan Agreement in substantially the form of the Loan Agreement on file with the Secretary of the Issuer, with such changes and insertions therein (including, without limitation, changes or insertions appropriate to reflect the form of credit enhancement and/or liquidity support, if any, for such series of the Bonds) as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Issuer, such approval to be conclusively evidenced by the delivery thereof.

Section 3. The form of Exchange Agreement on file with the Secretary of the Issuer is hereby approved, and, subject to the approval thereof by the Treasurer of the State, each of the Executive Director and the Chair of the Issuer, or the Chair's designee, acting alone, is hereby authorized and empowered to execute by manual or facsimile signature and deliver to the Borrower, and the Secretary of the Issuer is authorized to attest to said signatures, with respect to each series of the Bonds, an Exchange Agreement in substantially the form of the Exchange Agreement on file with the Secretary of the Issuer, with such changes and insertions therein as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Issuer, such approval to be conclusively evidenced by the delivery thereof.

Section 4. [Reserved.]

Section 5. The Issuer approves the issuance of not to exceed $453,550,000 aggregate principal amount of the Bonds, in one or more series, in exchange for the 2005 Bonds in accordance with the terms of and to be secured by one or more Indentures. The Bonds may be issued at one time, or from time to time, in one or more series or subseries, as serial bonds or as term bonds, separately or differently identified, and shall be issued on a tax-exempt basis. Payment of the principal of and premium, if any, and the interest on, each series of the Bonds shall be made solely from the revenues to be received by the Issuer pursuant to the related Loan Agreement and the related Indenture, and the Bonds shall not be deemed to constitute a debt or liability of the Issuer or the State, other than a limited obligation of the Issuer payable solely from the revenues pledged therefor. Each of the Chair or Executive Director of the Issuer or the Chair's designee, acting alone, is hereby authorized and directed to execute, in the name and on behalf of the Issuer, by manual or facsimile signature, the Bonds in an aggregate principal amount not to exceed $453,550,000, in accordance with one or more Indentures and in the form set forth in the Indentures. The dates, maturity dates (which shall not exceed 50 years from the date of issuance of the Bonds), interest rate or rates, methods of determining the interest rate or rates, interest payment dates, denominations, forms, registration privileges, place or places of payment, terms of redemption and terms of tender, number and designation of series, and other terms of each series of the Bonds shall be as provided in the related Indenture, as finally executed. In no event shall the rate of interest on each series of the Bonds exceed 12% per annum or the maximum rate permitted by law whichever is lower.

Section 6. The Treasurer of the State is hereby authorized and requested to enter into agreements to sell or to exchange the Bonds for the 2005 Bonds on one or more dates, within ninety (90) days of receipt of a certified copy of this Resolution, at private sale or exchange, at such price or prices and at such initial interest rate or rates as he may determine or approve.

Section 7. The Bonds, when so executed, shall be delivered to the Trustee for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate and register the Bonds so delivered by executing the appropriate Certificate of Authentication and Registration appearing thereon, and to deliver the Bonds, when duly executed, authenticated and registered, to the Borrower for subsequent redelivery to the Underwriters or directly to the Underwriters for the account of the Borrower, in accordance with written instructions executed on behalf of the Issuer by the Chair or Executive Director of the Issuer, or the Chair's designee, which instructions said official is hereby authorized and directed, for and in the name of and on behalf of the Issuer, to execute and to deliver to the Trustee. Such instructions shall provide for the delivery of the Bonds to or for the account of The Depository Trust Company, on behalf of the Borrower for subsequent redelivery to the Underwriters or directly to the Underwriters for the account of the Borrower, upon exchange of the 2005 Bonds therefor by the Borrower or payment of the purchase price therefor by the Underwriters, as applicable.

Section 8. Upon exchange of the Bonds for the 2005 Bonds, the trustee for each series of the 2005 Bonds is hereby requested and directed to cancel the 2005 Bonds in accordance with the written instructions executed on behalf of the Issuer by the Chair or Executive Director of the Issuer or the Chair's designee which instructions said official is hereby authorized and directed, for and in the name of and on behalf of the Issuer, to execute and deliver to such trustee, and each of the Chair or Executive Director of the Issuer or the Chair's designee, acting alone, is hereby authorized and directed to execute, in the name and on behalf of the Issuer, such instruments as shall be necessary or appropriate to evidence that the loans associated with the 2005 Bonds have been cancelled.

Section 9. Based upon representations made by the Borrower, the Board of Directors of the Issuer hereby finds and determines pursuant to Section 63046 of the Government Code:

(a) that the Projects are located in the State;

(b) that the Borrower is capable of meeting its obligations with respect to the Bonds to be issued for the Projects;

(c) that the payments to the Issuer under each Loan Agreement and each Indenture are adequate to pay the current expenses of the Issuer in connection with the related series of the Bonds and to make payments on such related series of the Bonds;

(d) that the issuance of the Bonds is an appropriate financing mechanism for the Projects;

(e) that the Projects are consistent with any existing local and regional comprehensive plans; and

(f) that the refinancing of the Projects demonstrates clear evidence of a defined public benefit.

The finding in subsection (b) above is based on the requirements that (i) payment of principal and purchase price of and interest on the Bonds issued at a variable rate of interest will be secured by a credit facility issued by a provider rated at the time of issuance in one of the three highest rating categories of Moody's Investors Service, Inc., Standard & Poor's Ratings Services or Fitch Ratings, Inc. (without regard to "+"'s or "-"'s or numerical designations) and (ii) the Bonds (as enhanced) will be rated at the time of issuance in one of the three highest rating categories of Moody's Investors Service, Inc., Standard & Poor's Ratings Services or Fitch Ratings, Inc. (without regard to "+"'s or "-"'s or numerical designations); provided, however, that if any of the Bonds will be issued at a fixed rate of interest, such Bonds will be rated at the time of issuance in one of the three highest rating categories of Moody's Investors Service, Inc., Standard & Poor's Ratings Services or Fitch Ratings, Inc., based on the credit of the Borrower (without regard to "+"'s or "-"'s or numerical designations).

Section 10. The Board of Directors of the Issuer hereby finds and determines that the proposed financing complies with the criteria, priorities and guidelines adopted by the Issuer pertaining to the conduit issuance of revenue bonds.

Section 11. Each of the Executive Director and the Chair of the Issuer, or the Chair's designee, acting alone, is hereby authorized to execute all documents, certificates and instruments necessary or appropriate in connection with the issuance of the Bonds and the exchange of the Bonds for the 2005 Bonds, including (without limitation) to execute and deliver any and all documents and certificates, including supplemental tax certificates, any documents relating to any credit enhancement and/or liquidity support, if any, or ancillary agreements or derivative products relating to the Bonds, and prepare and deliver information regarding the Issuer for inclusion in the disclosure documents relating to the Bonds.

Section 12. All actions heretofore taken by the officials of the Issuer with respect to the approval, issuance and sale of the Bonds are hereby approved, confirmed and ratified, and the officials of the Issuer and their authorized designees are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all certificates and documents that they, their counsel or Bond Counsel may deem necessary or advisable in order to consummate the issuance, sale and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution.

Section 13. This Resolution shall take effect from and after its adoption.

PASSED, APPROVED, AND ADOPTED at a meeting of the Board of Directors of the California Infrastructure and Economic Development Bank on August 21, 2008, by the following vote:

AYES: Berte, Lujano, Sheehan, Rice, Marin

NOES: None

ABSENT: None

ABSTAIN: None

By Stanton C Hazelroth
Stanton C. Hazelroth, Executive Director

Attest:

By Roma Cristia-Plant
Roma Cristia-Plant, Secretary

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
EXEMPT FACILITY REVENUE BOND FINANCING PROGRAM

STAFF REPORT

EXECUTIVE SUMMARY			
Applicant:	Pacific Gas and Electric Company (PG&E)	**Amount Requested:**	Not to exceed $453,550,000
Applicant Description:	PG&E, one of the largest investor-owned natural gas and electric utilities in the United States, serving approximately 5.1 million electricity distribution customers and approximately 4.3 million natural gas distribution customers throughout northern and central California.	**Date of Board Meeting:**	August 21, 2008
		Type of Issue:	Exchange/Refunding
		Resolution Number:	08-25
Project Site:	Geysers Geothermal Power Plant with locations within Sonoma, Mendocino and Lake Counties, and Diablo Canyon Nuclear Power Plant located on the Pacific Coast Highway near San Luis Obispo.	**Prepared by:** Tara Dunn and Andrea Kennedy	
Project Description:	The I-Bank previously issued auction rate securities in 2005 (2005 Bonds) to repay loans used to pay-off prior bonds issued by the California Pollution Control Financing Authority as a result of PG&E's bankruptcy filing in 2001. The 2005 Bonds have all been repurchased by PG&E in accordance with US Treasury guidelines.		
Uses of Bond Proceeds:	Bond proceeds (2008 Bonds) will be used to replace the 2005 Bonds through an exchange. Once the 2008 Bonds are exchanged for the 2005 Bonds, the 2005 Bonds will be cancelled.		
Public Benefits:	PG&E estimates that the proposed tax-exempt refunding bonds will enable it to save ratepayers approximately $55 million in interest, on a present value basis, over the next 18 years.		

Financing Structure:

Type of Issue:	Once exchanged, it is expected that the 2008 Bonds will be resold on the secondary market as a combination of publicly-offered variable-rate demand bonds and fixed rate demand bonds.
Tax Status:	Tax-exempt, exempt facility bonds.
Term:	8 to 18 years.
Credit Enhancement:	Unenhanced and/or secured with direct-pay letters of credit.
Credit Rating:	The 2008 Bonds will be issued directly to PG&E. The underlying credit ratings of PG&E are currently A3/BBB+/A by Moody's, Standard & Poor's and Fitch, respectively.

Total Est. Sources of Funds:		**Total Est. Uses of Funds*:**	
2008 Bond Proceeds	$453,550,000	2005 Bonds	$453,550,000
TOTAL SOURCES	**$453,550,000**	**TOTAL USES**	**$453,550,000**

**Costs of issuance will be paid by PG&E from other sources of funds.*

Financing Team:

Bond Counsel:	Sidley Austin, LLP
Borrower Counsel:	Orrick Herrington & Sutcliffe
Underwriter's Counsel:	Ballard Spahr Andrew & Ingersoll
Trustee:	Deutsche Bank Trust Company

Staff Recommendation:
Staff recommends approval of Resolution 08-25 for an amount not to exceed $453,550,000 for Pacific Gas and Electric Company.

BACKGROUND AND HISTORY

Incorporated in 1905, Pacific Gas and Electric Company (PG&E) is a public utility operating in northern and central California. PG&E engages in the businesses of electricity and natural gas distribution, electricity generation, procurement and transmission, and natural gas procurement, transportation and storage. On January 1, 1997, PG&E Corporation became the holding company of PG&E and its subsidiaries.

Electricity and Natural Gas Distribution. As of December 31, 2007, PG&E served approximately 5.1 million electricity distribution customers and approximately 4.3 million natural gas distribution customers. In 2007, PG&E delivered approximately 86,179 gigawatt hours (GWh) of electricity, which included approximately 6,723 GWh transmitted to direct access customers, and delivered approximately 875 billion cubic feet (Bcf) of natural gas, which included approximately 605 Bcf of natural gas that PG&E did not purchase but transports on behalf of its customers.

Electricity Generation. PG&E owns, operates and controls an extensive hydroelectric system in northern and central California and the Diablo Canyon nuclear power plant located near San Luis Obispo, California. As of December 31, 2007, PG&E's electricity generation portfolio consisted of approximately 6,271 megawatts of owned generating capacity.

Electricity Transmission. PG&E owns and operates an electricity transmission system that comprises most of the high-voltage electricity transmission lines and facilities in northern and central California. PG&E's high-voltage transmission system currently consists of approximately 18,680 circuit miles of interconnected electricity transmission lines and support facilities.

Natural Gas Procurement Transportation and Storage. PG&E also owns and operates a natural gas pipeline and storage system that extends throughout all or part of 39 of California's 58 counties and includes most of northern and central California. This system currently consists of approximately 41,805 miles of distribution pipelines, 6,393 miles of backbone and local transmission pipelines and three storage facilities.

PG&E is regulated primarily by the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Among other things, the CPUC has jurisdiction to set the rates, terms and conditions of service for PG&E's electricity distribution, natural gas distribution and natural gas transportation and storage services in California. Ratemaking for retail sales from PG&E's generation facilities is also under the jurisdiction of the CPUC. The FERC has jurisdiction to set the rates, terms and conditions of service for PG&E's electricity transmission operations and wholesale electricity sales.

The California Energy Crisis and PG&E's Bankruptcy

As a result of the California energy crisis, PG&E filed a voluntary petition for relief under the provisions of Chapter 11 on April 6, 2001. PG&E retained control of its assets and was authorized to operate its business as a debtor-in-possession during its Chapter 11 bankruptcy proceeding. PG&E Corporation and the subsidiaries of PG&E, including PG&E Funding LLC, which issued rate reduction bonds, and PG&E Holdings LLC, which holds stock of PG&E, were not included in PG&E's Chapter 11 proceeding.

PG&E emerged from Chapter 11 when its plan of reorganization became effective on April 12, 2004. The plan of reorganization incorporated the terms of the Chapter 11 Settlement Agreement. Although PG&E's operations are no longer subject to the oversight of the bankruptcy court, the bankruptcy court retains jurisdiction to hear and determine disputes arising in connection with the interpretation, implementation or enforcement of (1) the Chapter 11 Settlement Agreement, (2) the plan of reorganization and (3) the bankruptcy court's December 22, 2003 order confirming the plan of reorganization. In addition, the bankruptcy court retains jurisdiction to resolve remaining disputed claims.

See Appendix A for a current list of PG&E's Corporate Officers and Board Members.

PROJECT DESCRIPTION / FINANCING STRUCTURE

On May 24, 2005, the I-Bank issued bonds (2005 Bonds) totaling $453,550,000 as auction rate securities (ARS) insured by Ambac Assurance Corporation (Ambac). The 2005 Bonds proceeds repaid loans that were used to pay-off prior bonds previously issued by the California Pollution Control Financing Authority (CPCFA Bonds) as a result of PG&E's bankruptcy filing in 2001. The CPCFA Bonds were used to finance costs of air and water pollution control as well as sewage and solid waste disposal facilities for two projects: PG&E's former Geysers Geothermal Power Plant comprised of geothermal electric generating facilities located in Lake and Sonoma Counties (currently owned by Calpine Corporation through Geysers Power Company, LLC) and Diablo Canyon Nuclear Power Plant.

Subsequent to the issuance of the 2005 Bonds, in early 2008 the ARS market became severely damaged due to credit risk problems related to the sub-prime mortgage market resulting in failed auctions and spikes in interest rates. During this time, interest rates of the 2005 Bonds reset as high as 10% substantially increasing borrowing costs for PG&E. In March and April 2008, PG&E elected to repurchase the 2005 Bonds in accordance with US Treasury guidelines to mitigate the high interest rates caused by the failure of the ARS market.

Additionally, Ambac's credit rating was downgraded from AAA to Aa3/AA by Moody's Investor's Service (Moody's) and Standard & Poor's (S&P), respectively, in June 2008 due to Ambac's reported financial losses also related to the continued sub-prime mortgage crisis.

PG&E has now requested the I-Bank to issue its refunding revenue bonds (2008 Bonds) in an amount not to exceed $453,550,000 to assist in refinancing the 2005 Bonds. The 2008 Bonds are expected to be sold and delivered to PG&E in exchange for the 2005 Bonds, thereby refinancing the 2005 Bonds. Concurrently with the exchange of the 2008 Bonds for the 2005 Bonds, the 2005 Bonds will be cancelled.

Once exchanged, it is expected that the 2008 Bonds will be resold on the secondary market as a combination of publicly-offered variable-rate demand bonds and fixed rate demand bonds. A portion of the 2008 Bonds to be resold are expected to be secured by direct-pay letters of credit while the remaining portion of the 2008 Bonds to be resold are expected to be unenhanced and carry PG&E's underlying rating. PG&E is currently rated A3/BBB+/A by Moody's, S&P and Fitch Ratings, Inc., respectively. All three rating agencies have recently upgraded PG&E's rating citing improved financial performance, a favorable regulatory environment and narrow strategic focus on regulated utility operations.

The 2008 Bonds shall constitute a special obligation of the I-Bank, payable solely from revenues or other sources provided for under one or more loan agreements between the I-Bank and PG&E. Neither the faith and credit nor the taxing power of the I-Bank, the State or any political corporation, subdivision or agency of the State will be pledged to the payment of the principal of, premium, if any, or interest on the 2008 Bonds, nor shall the I-Bank the State or any political corporation, subdivision or agency of the State be liable or obligated to pay the principal of, premium, if any, or interest on, the 2008 Bonds.

PUBLIC BENEFITS

Pursuant to a long-standing commitment by PG&E, ensured by the regulatory oversight of the CPUC, PG&E's electric and gas rates are set to cover PG&E's interest expenses. The vehicle for passing this benefit along to PG&E customers is the CPUC's annual cost of capital proceeding. In that proceeding, PG&E provides a listing of all its outstanding debt, as well as any projected changes, for the CPUC's review and approval. The interest expense that is approved by the CPUC is then incorporated into electric and gas rates charged to customers. PG&E estimates that the CPCFA Bonds and the 2005 Bonds have saved PG&E California customers as much as $7.7 million per year in interest expense.

If a tax-exempt refunding were not possible, PG&E probably would replenish the $453,550,000 withdrawn from its general treasury funds by arranging for the 2005 Bonds to be redeemed using proceeds of higher cost taxable debt issued with similar terms to maturity and with a similar mix of fixed-rate and variable rate debt.

To avoid continued higher borrowing costs on the 2005 Bonds due to the ARS structure and the presence of the Ambac insurance, PG&E anticipates that the exchange of 2008 Bonds for the 2005 Bonds will save an estimated $55 million for customers on a present value basis over the next 18 years.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	☒ **NO** ☐ **YES, Describe:**
TEFRA	
Date of TEFRA	Not applicable, the proposed exchange is covered under the TEFRA held for the 2005 Bonds.
Publications	
Oral/Written Comments	☒ **NO** ☐ **YES, Explain:**
LEGAL QUESTIONNAIRE	
Completed?	☐ **NO** ☒ **YES**
Issues?	☒ **NO** ☐ **YES, Explain:** PG&E has numerous lawsuits outstanding at any given time. As a publicly traded and regulated corporation, material information concerning the financial position and pending lawsuits and investigations are available to the public.
ELIGIBILITY REVIEW	
Project meets Public Interest Criteria (per G.C. §63046) ☒ **YES** ☐ **NO**	1. Project is in the State of California. 2. PG&E is capable of meeting the obligations incurred under relevant agreements. 3. Payments to be made by PG&E to the I-Bank under the proposed financing agreements are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments. 4. The proposed financing is appropriate for the Project.
Project meets Policies and Procedures established for the expeditious review of applications?	☐ **NO** ☒ **YES**
INDUCEMENT CERTIFICATE	
Completed?	☐ **NO** ☐ **YES** Certificate No.: ☒ **N/A** Date:

RECOMMENDATION

Staff recommends approval of Resolution 08-25, for an amount not to exceed $453,550,000 for Pacific Gas and Electric Company.

APPENDIX A

Names and Titles of PG&E's Corporate Officers

Arndt, William (Bill), Vice President, T&D Business Operations; Interim: Vice President, Project Management and Program Office
Barcon, Barbara L,. Vice President, Finance and Chief Financial Officer
Basgal, Ophelia B., Vice President, Civic Partnership and Community Initiatives
Becker, James R., Site Vice President, Diablo Canyon Power Plant
Bell, Desmond Vice President, Shared Services and Chief Procurement Officer
Bottorff, Thomas E., Senior Vice President, Regulatory Relations
Burt, Helen A., Senior Vice President and Chief Customer Officer
Cairns, Stephen J., Vice President and Controller
Cheng, Linda Y.H., Vice President, Corp Governance & Corp Secretary
Cherry, Brian K., Vice President, Regulatory Relations
Conway, John T., Senior Vice President and Chief Nuclear Officer
Hapner, Dede, Vice President, FERC and ISO Relations
Harper III, William H., Vice President and Chief Diversity Officer
Hartman, Sanford L., Vice President and Managing Director, Law
Hayes, William D., Vice President, Maintenance and Construction
Howard, Robert T., Vice President, Gas Transmission and Distribution
Johns, Christopher P., Senior Vice President & Treasurer
Johnson, Mark S., Vice President, Electric Operations and Engineering
Keenan, John S. (Jack), Senior Vice President and Chief Operating Officer
Kiraly, Gregory K., Vice President, Maintenance & Construction
Kuga, Roy M., Vice President, Energy Supply
Lawicki, Patricia, Senior Vice President and Chief Information Officer
Livingston, Randal S., Vice President, Power Generation
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