



**Pacific Gas and
Electric Company**

Stephen A. Rayburn
Director and Chief Negotiator
Industrial Relations

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October 26, 2005

Mr. Perry Zimmerman, Business Manager
Local Union No. 1245
International Brotherhood of
Electrical Workers, AFL-CIO
P.O. Box 2547
Vacaville, CA 95696

Dear Mr. Zimmerman:

This letter will confirm the Company's understanding of the settlement reached on October 14, 2005, between the Company's Negotiating Committee and the Union's Negotiating Committee in the 2006 – 2007 Wage Re-Opener with respect to the IBEW Agreements between the Company and IBEW Local No. 1245.

PG&E and IBEW Local No. 1245 jointly acknowledge that all interested stakeholders in PG&E's business – customers, employees, regulators and the communities it serves – have significant interests in the Company's ongoing success. Over the last several months, the Company and Union have had discussions regarding Business Transformation and the importance of the engagement of bargaining unit employees. With Business Transformation as the cornerstone of these negotiations, the items agreed to are as follows:

1. Wages

The Company will grant a general wage increase of three and three-quarters percent (3.75%) effective January 1, 2006 and three and three-quarters percent (3.75%) effective January 1, 2007. In addition, based on the extension of the term of the Agreements discussed below, the Company will grant a general wage increase of three and three-quarters percent (3.75%) effective January 1, 2008.

2. Term of the Agreements

The parties agree to a one-year extension of the current term of the Physical, Clerical and Benefit Agreements through December 31, 2008.

October 26, 2005

3. Group Life Insurance and Long-Term Disability Plan, Part B – Special Provision A, LTD Adjustment

Effective January 1, 2006, participants who are receiving Long-Term Disability payments and who are Social Security qualified will have their payments increased by the following adjustments:

<u>Year of Disability</u>	<u>Increase</u>
1985 and earlier	9.0%
1986 to 1995	5.0%
1996 to 2001	2.5%

4. Retiree Medical

The Company and Union discussed the Medicare Modernization Act, which provides prescription drug benefits to Medicare retirees and a subsidy to employers that maintain prescription drug plans for retirees beginning in 2006. The Company recognizes that retirees are facing increasing medical costs and after lengthy negotiations, on August 31, 2005 the Company agreed to share the newly established Medicare Part D prescription drug subsidy that it will receive in 2006 with Medicare retirees. The monthly value of the subsidies and premium enhancements (doubled for employee and spouse) for each member will range from \$22.00 to \$63.00, with the largest group of retirees seeing a benefit of \$43.25 per month per person. As a result, even though medical premium costs have increased, almost all retirees of Medicare age will see their premium contributions decrease.

If any of the above is not in accordance with your understanding of our settlement, please let me know immediately.

Sincerely,



Stephen A. Rayburn
Director and Chief Negotiator