



**Pacific Gas and
Electric Company**

LETTER AGREEMENT NO. 05-52-PGE



PACIFIC GAS AND ELECTRIC COMPANY
INDUSTRIAL RELATIONS DEPARTMENT
2850 SHADELANDS DRIVE, SUITE 100
WALNUT CREEK, CALIFORNIA 94598
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INTERNATIONAL BROTHERHOOD OF
ELECTRICAL WORKERS, AFL-CIO
LOCAL UNION 1245, I.B.E.W.
P.O. BOX 2547
VACAVILLE, CALIFORNIA 95696
(707) 452-2700

STEPHEN A. RAYBURN
DIRECTOR AND CHIEF NEGOTIATOR

PERRY ZIMMERMAN
BUSINESS MANAGER

October 10, 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:

Effective January 1, 2006, the Federal Government will implement the Medicare Part D prescription drug legislation from the 2003 Medicare Modernization Act (MMA).

The Company proposes to share the net savings received from the Federal Government for Medicare Part D as follows:

Medco

Effective January 1, 2006, PG&E proposes to provide the net subsidy it receives from the Federal Government to retirees in the prescription drug plans currently administered by Medco as follows:

- **Subsidy:** The estimated PG&E subsidy is based on projected claims costs.
- **Administrative Costs/Taxes:** Medco and PG&E will be incurring costs for providing claims data, eligibility data, actuarial analysis, etc., needed to obtain the subsidy. The amount of subsidy given to retirees will be reduced by the estimated administrative costs including any applicable corporate taxes.
- **Premium Reduction:** Retirees will receive the net subsidy as a reduction to their required monthly premium contribution beginning January 1, 2006.
- **Drug Benefits:** The current prescription drug benefits for each plan administered by Medco will remain in effect for 2006.
- **Requirements:** PG&E can only receive the subsidy for Medicare eligible retirees and dependents who do not enroll in a Medicare Part D plan. In addition, PG&E must have the Social Security Number of each retiree and each dependent to receive the Medicare Part D subsidy for the individual. Therefore, if a retiree or dependent enrolls in a Part D plan or PG&E does not have his or her Social Security Number, s/he will be disenrolled from the PG&E retiree medical plans. Retirees who are disenrolled can reenroll the following year by 1) dropping Medicare Part D and 2) notifying the PG&E HR Service Center by September 1 of their intent to enroll in PG&E medical in the upcoming Open Enrollment period.
- **Administration:** PG&E will determine and manage the administrative processes associated with Medicare Part D.

- **LTD Members:** PG&E will reduce the premium equivalent of Medicare eligible LTDers by the value of the net subsidy. LTDers will pay their agreed-to medical premium contribution based on the reduced premium.
- **Federal Government Changes:** The federal government is still finalizing processes and rules regarding the Medicare Part D subsidies. If lack of finalization materially changes the Parties' agreement, the parties will re-open discussions.

HMOs

Effective January 1, 2006, PG&E proposes to purchase HMO coverage that embeds Medicare Part D into its benefit and premium structure. This is generally referred to as "enhanced" coverage by the HMOs.

Specifically:

- **Premium Reduction:** The HMOs receive a payment from the Federal Government for providing prescription drug coverage. The payment is passed back to participants via a lower premium than the HMO would otherwise charge.
- **Default:** HMO Medicare members who do not complete the Medicare Part D HMO enrollment process properly will default to the CAP plan as they currently do today when they do not complete the Part A and Part B assignment form properly.
- **Drug Benefits:** HMO Medicare members will receive the Medicare approved plan option that is closest to the current prescription plan option.
- **LTD Members:** Both LTD-Medicare eligible members as well as Medicare retirees are eligible to participate in a Medicare Part D enhanced HMO plan.
- **Federal Government Changes:** Both the Federal Government and the HMOs are still finalizing processes and benefits. If this lack of finalization materially changes the Parties' agreement, the parties will re-open discussions.

If you are in accord with the foregoing and agree thereto, please so indicate in the space provided and return one executed copy of this letter to the company.

Very truly yours,

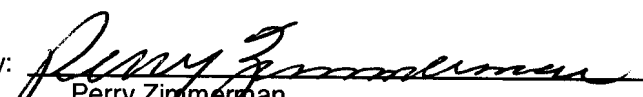
PACIFIC GAS & ELECTRIC COMPANY

By: 
 Stephen A. Rayburn
 Director and Chief Negotiator

The Union is in accord with the foregoing and agrees thereto as of the date hereof.

LOCAL UNION NO. 1245, INTERNATIONAL
BROTHERHOOD OF ELECTRICAL WORKERS, AFL-CIO

10-17, _____, 2005

By: 
 Perry Zimmerman
 Business Manager