LETTER AGREEMENT NO. R3-97-53-PGE

IBEW

PACIFIC GAS AND ELECTRIC COMPANY
INDUSTRIAL RELATIONS DEPARTMENT
375 NORTH WIGET LANE, SUITE 150
WALNUT CREEK, CALIFORNIA 94598
(510) 746-4282

INTERNATIONAL BROTHERHOOD OF
ELECTRICAL WORKERS, AFL-CIO
LOCAL UNION 1245, I.B.E.W
P.O. BOX 4790
WALNUT CREEK, CALIFORNIA 94596
(510) 933-6060

MEL BRADLEY, MANAGER OR
DAVID J. BERGMAN, CHIEF NEGOTIATOR

JACK MCNALLY, BUSINESS MANAGER

April 14, 1997

Local Union No. 1245
International Brotherhood of
Electrical Workers, AFL-CIO
P.O. Box 4790
Walnut Creek, CA 94598

Attention: Mr. Jack McNally, Business Manager

Gentlemen:

On December 20, 1995, the California Public Utilities Commission (CPUC) issued its electric industry restructuring policy decision which, among other things, ordered PG&E to voluntarily divest at least 50 percent of their fossil generation. In compliance with the CPUC order, PG&E filed its response on March 19, 1996, stating that it would sell at least 50 percent of its fossil generation and would evaluate the possibilities of selling all generation except nuclear.

In August 1996, the California Legislature passed Assembly Bill 1890 which included provisions that apply to the sale of utility electric generating facilities. Specifically, the bill requires that any facility sold by a utility must continue to be operated and maintained by the utility or an affiliate under contract to the new owner for a period of two years following the sale. The legislation also specifies that reasonable costs associated with "...voluntary severance, retraining, early retirement, outplacement, and related benefits" due to plant sale are to be recovered through Competitive Transition Charges (CTC).

On October 22, 1996, the Company announced its intention to sell four plants which represent 50 percent of its fossil-fueled generation.

The sale of these facilities could take several years. During the transition period of the sale and the subsequent two-year operations and maintenance contract, PG&E has the obligation to operate the plants safely and reliably. To accomplish this, PG&E will need highly skilled personnel who are knowledgeable about the plants' operation.

The Company and Union met through Ad Hoc Negotiations to address the transition issues. The Company Committee consisted of Jim Randolph, Mel Bradley, Terry Nelson, Randy Livingston, Gloria Herrera, Dave Bergman, Sabrina Danels and John Moffat. The Union Committee consisted of Darrel Mitchell, Ken Ball, Sam Tamimi, Bill Butkovich, Robin David, Wayne Fippin, Dan Lockwood, Al MacLean, Larry Magnoli, Jim Martinez, Mike McBroom and Wayne Pacheco.

The Company's and Union's Power Generation bargaining committee reached an agreement on March 8, 1997 on the following items related to power plant sales. This agreement applies to Title 200 Steam Generation (except Diablo Canyon but including Humboldt Bay PP) and Hydro Generation employees. The agreement is as follows:

Application Trigger:

The trigger for these provisions will be the formal approval by the CPUC of the process tied to the sale of a generating facility. All of these provisions will only be applicable to that facility that has been approved for sale. In the event of a partial sale, Company and Union will meet prior to the filing to determine which employees are covered by this Agreement. If, after the determination is made, it is found during subsequent 206 activity that other employees are impacted by the divestiture sale, they will be entitled to the provisions outlined in this Agreement on a retroactive basis. This agreement is subject to the provisions of Title 102 for the determination of covered employees.

Early Retirement Program:

Eligible employees who are 50 years of age or older will be given five additional years of service or age or a combination of age and service under the provisions of the Retirement Plant as outlined in the current Benefit Agreement. Special Provision P will apply to any plant covered under the application trigger above. Employee Severance and Displacement Program payments are not considered "benefits" in Section II.(iii) of Special Provision P. Attachment 1 is Special Provision P.

Modification to Section 207.2 of the Agreement:

It is recognized that the Company has the right to have work performed by outside contractors. In the exercise of such right, Company will not make a contract with any firm for the sole purpose of dispensing with the service of Generation employees who are engaged in the maintenance, operations and construction work. Prior to contracting, where practical, Company will use hiring hall employees.

Once a plant has received formal CPUC approval of the process to be sold thereby triggering the provisions in this letter agreement, the Company will not layoff in the department if the department is contracting work normally performed by the bargaining unit.

The Company shall be able to reduce through attrition even if contracting is occurring.

(Subsections b and c of Section 207.2 of the Agreement would no longer be applicable)

Flexibility Committee:

Each Plant through their Local Title 8 Committee will attempt to develop a recommended workforce flexibility plan. These plans will address cross crafting, work schedules and job assignments. Once the plans are agreed to, each of the Local Title 8 committees will be responsible to review and recommend amendments, and updates. Any modifications to the collective bargaining agreement will require a letter agreement signed by the Company's Chief Negotiator and the Union's Business Manager.

Enhanced Relocation (206.8):

The Company proposes to provide these employees who must relocate to secure an employment opportunity with reimbursement for moving expenses as defined in Section 206.8 of the Physical Agreement up to a maximum of $5,000.

Reemployment Provisions (206.13):

Modify 206.13 (a) as follows:

Notwithstanding any other provision of this Agreement a regular employee who has been laid off for lack of work pursuant to the provisions of this Agreement for a period not in excess of sixty months and who had one or more years of Service at the time of layoff.

Successor Clause:

Company as a condition of any sales agreement for generating assets will obtain from the new entity that it will, only to the extent the new entity is required under federal labor law:

(a) recognize local 1245 as the collective bargaining representative of all employees covered by local 1245 at that facility;

(b) execute a written assumption of section 2.1 of local 1245 physical collective bargaining agreement.

To comply fully with its obligation set forth in the preceding sentence, the Company is only required to include the following language in any sales agreement for generating assets:

> Purchaser agrees to recognize, subject to the requirements of federal labor laws, Local 1245 of the International Brotherhood of Electrical Workers, AFL-CIO ("Union"), as the exclusive bargaining representative of those employees hired by Purchaser who were subject to Section 2.1 of the collective bargaining agreement between Seller and Union. Purchaser further agrees to defend and indemnify Seller against any claim arising out of an alleged failure of Purchaser, for any reason, to comply with the foregoing recognition requirement.

The only claim the Union may have against the Company under this Section is for the Company's failure to include in the sales agreement the clause set forth above. Should the Company fail to include in the sales agreement the clause set forth above, the Company will be liable for the difference in wages and benefits from the conclusion of the O&M Agreement up to the end of the term of the Physical Collective Bargaining Agreement, which was in effect between the Company and Local 1245 at the end of the O&M Agreement. If the purchaser fails to recognize the Union, or the recognition obligation, for any reason, is alleged or found to be unenforceable or unlawful, the Union will have no claim against the Company.

Notice of Displacement (Section 206.2)

Employees working at an impacted plant will be provided notice of displacement without options six months prior to the end of the Company's operation and maintenance obligation. Any Section 206.2 notice given prior to six months, will include options. Section 206.2 notice with options will be provided prior to the completion of the O&M obligation. Positions filled with Hiring Hall employees in the same line of progression will be offered as voluntary displacement options in addition to the normal 206 options.

Wage Protection:

Employees who vacate their base position and successfully bid, transfer or are displaced into a lower paying regular position in another department or another line of progression will maintain their rate of pay for up to three years or until such time as the rate of pay in the new position is equal to or greater than that of the employee's frozen rate of pay, whichever comes first. If at the end of three years, an employee is still paid above the top of the rate for the classification held, the employee will be placed at the top of the rate for that classification. During the time that an employee's pay remains above the wage range of the position into which he/she bid, the employee will not receive General Wage Increases or Progressive Wage Increases.

Retraining Assistance:

After successful completion of an approved course, a refund of 100% of the direct cost will be made up to a cap of $5,000 per year while employed and $5,000 for the year immediately following separation from the Company for eligible employees. Attachment 2 delineates the program.

Employee Severance and Displacement Program:

Following approval by the CPUC of the process to sell a power plant, eligible bargaining unit employees will receive annual lump sum payments of $10,000 for the first two years, $15,000 for the third year, and the final payment of $50,000 once the two-year O&M obligation has been completed or if an employee has been displaced through the 206 process. In any event the final payment will be $50,000. Details regarding eligibility are in Attachment 3.

Placement Opportunities:

Parties recognize the 94-53 Employment Retention Committee will continue to address placement issues also recognizing the Company may place impacted employees pursuant to subsection 205.5(c).

Joint Overview Committee:

Company and Union agree to establish a joint committee to address implementation issues as a result of this agreement.

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: _____
Chief Negotiator

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

April 14, 1997

By: _____
Business Manager

SPECIAL PROVISION P

I. Introduction

This Special Provision P, an amendment to the COMPANY'S RETIREMENT PLAN, authorized by the COMPANY'S Board of Directors on February 19, 1997, is the controlling and definitive statement of the Special Retirement ("SR") Benefit program for certain Power Generation bargaining unit employees. The purpose of the SR Benefit program is to provide SR Benefits for EMPLOYEES whose employment is terminated because of the Sale of Eligible Plants. The SR Benefit program is part of the RETIREMENT PLAN, and except as otherwise provided in this Special Provision P, shall be administered in accordance with and subject to the terms of the RETIREMENT PLAN. Terms in all capitals are defined in Section 23 of the RETIREMENT PLAN. Terms underlined are defined in Section IV of Special Provision P.

II. Eligibility for Special Retirement Benefits

An Eligible Employee shall meet all of the following criteria: (1) the EMPLOYEE is an active EMPLOYEE of the COMPANY represented by the International Brotherhood of Electrical Workers, Local 1245, AFL-CIO or the Engineers and Scientists of California, MEBA, AFL-CIO; (2) the COMPANY has eliminated the EMPLOYEE'S job because of the Sale of an Eligible Plant; (3) the EMPLOYEE'S base position on the date the EMPLOYEE'S job is eliminated is headquartered at an Eligible Plant in the Power Generation line of progression; (4) the EMPLOYEE was born on or before the date that is fifty (50) years prior to the last day of the month in which the EMPLOYEE'S job is eliminated; (5) the EMPLOYEE has at least five (5) full years of SERVICE on the last day of the month in which the EMPLOYEE'S job is eliminated; and (6) the EMPLOYEE elects to retire from employment with the COMPANY within thirty (30) days after receiving notice from the Company that his or her job has been eliminated. For purposes of this Special Provision P only, the term active EMPLOYEE shall not include an EMPLOYEE of the COMPANY (i) who, on the date of job elimination, is receiving benefits under Part B of the Group Life Insurance and Long Term Disability Plan; (ii) who is on a leave of absence, with or without pay, which began prior to the date of job elimination; (iii) who has received or is scheduled to receive severance benefits under the COMPANY'S Workforce Management Program, Letter Agreement No. 93-42-PGE, or under any other written agreement between the COMPANY and the EMPLOYEE in which the EMPLOYEE has received benefits in connection with the elimination of such EMPLOYEE'S job and the subsequent termination of his or her employment; or (iv) who is terminated for cause.

SPECIAL PROVISION P - continued

III. Special Retirement Benefit

A. SR Benefit. An Eligible Employee who elects to retire within thirty (30) days after receiving notice from the COMPANY that his or her job has been eliminated shall receive a benefit equal to the BASIC PENSION BENEFIT calculated under Section 3.06 of the RETIREMENT PLAN with the following adjustments:

1. An additional five (5) years credit under the RETIREMENT PLAN to be applied, at the Eligible Employee's option, in either or any combination of both of the following ways, to:

   i. Increase the Eligible Employee's AGE for purposes of Section 3.07 of the RETIREMENT PLAN; and/or

   ii. Increase the Eligible Employee's SERVICE for purposes of Section 3.03 of the RETIREMENT PLAN.

The SR Benefit shall equal the Eligible Employee's BASIC PENSION benefit calculated under Section 3.06 of the RETIREMENT PLAN as adjusted above.

B. The SR Benefit shall be payable as of the first of the month following the date on which the job is eliminated. Eligible Employees who elect the SR Benefit shall not be subject to the age 55 requirement contained in Section 3.08 of the RETIREMENT PLAN.

C. Section 3.10 of the RETIREMENT PLAN shall control the conditions under which other forms of pension may be substituted for the SR Benefit.

D. The SR Benefit payable under this Special Provision P shall be in lieu of any benefit which might otherwise be payable under the RETIREMENT PLAN.

IV. Definitions

A. Eligible Employee: An EMPLOYEE of the COMPANY who has met the eligibility criteria as set forth in Section II. EMPLOYEES of any subsidiary or affiliate of the COMPANY are not Eligible Employees for purposes of this SR Benefit program. Eligible Employees shall not include hiring hall employees, leased employees, or persons performing services for the COMPANY under an agreement that denominates them independent contractors.

B. Eligible Plant: The Morro Bay Power Plant, the Moss Landing Power Plant, or the Hunter's Point Power Plant.

C. Sale: The transfer by the COMPANY of ownership of and title to an Eligible Plant to a successor owner.

D. Special Retirement or SR Benefit: The COMPANY'S SR Benefit program as set forth in this Special Provision P.

RETRAINING ASSISTANCE

Eligibility:

A. Any regular full time Generation employee who is on the active payroll and is working at a Plant where the Company has a CPUC approved filing for the sale of the Plant.

B. Only courses taken at a Western College Association accredited college or university, through its regular program of instruction, its correspondence program, its extension division or its evening division, or at a National Home Study Council accredited correspondence school or schools selected by the Company are acceptable for refund.

C. The employee must earn a grade of "C" (or equivalent) or better in each course to qualify for tuition refund.

D. Attendance at these courses shall not interfere with the regular working hours of the employee.

Procedures:

An employee who desires to receive such tuition refund shall prior to his/her enrollment in a course of study, submit in writing through his/her supervisor or Human Resources Department for approval, details of the course for which the refund will be sought.

The employee should submit this request 30 days prior to the enrollment date to allow ample time for processing.

Within 30 days after completion of the approved course, the employee shall submit the following to his /her supervisor or the Local Human Resources Department:

A. Copies of the employee's certificate of completion with a grade of "C" (or equivalent) or better, in each course.

B. Copies of the employee's receipt indicating monies paid for the above courses and textbooks.

C. Other material as requested in the case of home study course.

Refunds:

After successful completion of an approved course a refund of 100% of the direct cost will be made up to a cap of $5,000 per year while employed and $5,000 for the year immediately following separation from the Company. Direct cost applies only to registration fees, tuition. required textbooks, laboratory fees, and other charges made by the institution. Cost of material and equipment purchased by the employees are not covered.

Refunds will only be made for those approved courses.

EMPLOYEE SEVERANCE AND DISPLACEMENT PROGRAM

Who is Eligible?

To be eligible to participate in the Plan, you must be a regular employee who is represented by IBEW Local 1245, in the Generation line of progression, and located at a plant to be sold. This Agreement applies to Title 200 Steam Generation (except Diablo Canyon) and Hydro Generation employees.

Who is Excluded from the Plan?

You are ***not eligible*** for the Plan if you are:

- Not employed at the Plants as of the CPUC approval of the process with the exception of those employees who become employed at the Plants pursuant to the provisions of Titles 205 or 206. These employees will be eligible for a prorated benefit.
- An employee not covered by the terms of the labor agreement between PG&E and IBEW Local 1245
- A temporary employee
- A hiring hall employee
- A contract employee
- An employee on long-term disability (LTD)
- An employee on an unpaid leave of absence, without job return rights
- An employee who voluntarily quits or transfers from the Plants prior to vesting in the Plan
- An employee terminated for cause

Vesting

Employees who are in the Plan for the entire duration of the retention vesting period or are displaced in accordance with Title 206 or exercise the provision of subsection 206.9(a) will receive full retention benefits. A pro-rated portion will be received if any of the following conditions are met:

- an employee is released from their current position pursuant to Section 205.17
- an employee dies during the retention period
- an employee becomes disabled and is precluded from returning to work during the retention period
- an employee elects normal retirement during the retention period
- an employee is hired, returns from LTD, or enters a covered regular position under the provisions of Titles 205 and 206, during the retention vesting period
- Failure to complete the sale of the plant

Plan Duration

- The Plan will be for a period not to exceed four payments and the triggering event will be when the CPUC approves the process for the sale of the Plant.

EMPLOYEE SEVERANCE AND DISPLACEMENT PROGRAM - Continued

PAYMENT ILLUSTRATIONS

Plan Provisions:

1st year payment	$10,000 lump sum
2nd year payment	$10,000 lump sum
3rd year payment	$15,000 lump sum
final year	$50,000 lump sum

Other Benefits
This payment is not considered covered compensation for any items covered under the Benefits and Medical, Dental and Vision Agreements.

Four Years from Approval to Completion of O&M Obligation:

June 15, 1997	process approved
July 1, 1997	begin the 12 month period for retention payment
June 30, 1998	$10,000 lump sum payment
July 1, 1998	begin the second 12 month period
June 30, 1999	$10,000 lump sum payment
July 1, 1999	begin the third 12 month period
June 30, 2000	$15,000 lump sum payment
July 1, 2000	begin fourth year and final year payment
June 30, 2001	Plant Sold, O&M obligation complete, $50,000 lump sum payment

Two Years from Approval to Completion of O&M Obligation:

June 15, 1997	process approved
July 1, 1997	begin 12 month period for retention payment
June 30, 1998	$10,000 lump sum payment
July 1, 1998	begin the second 12 month period
June 30, 1999	Plant Sold, O&M obligation complete $50,000 lump sum payment

PAYMENT ILLUSTRATIONS - continued

Two and One Half Years from Approval to Completion of O&M Obligation:

June 15, 1997	process approved
July 1, 1997	begin 12 month period for retention payment
June 30, 1998	$10,000 lump sum payment
July 1, 1998	begin the second 12 month period
June 30, 1999	$10,000 lump sum payment
July 1, 1999	begin the third 12 month period
December 15, 1999	Plant Sold, O&M obligation complete $50,000 lump sum payment

Five Years from Approval to Completion of O&M Obligation:

June 15, 1997	process approved
July 1, 1997	begin the 12 month period for retention payment
June 30, 1998	$10,000 lump sum payment
July 1, 1998	begin the second 12 month period
June 30, 1999	$10,000 lump sum payment
July 1, 1999	begin the third 12 month period
June 30, 2000	$15,000 lump sum payment
July 1, 2000	begin the fourth 12 month period
July 1, 2001	begin the fifth 12 month period
June 30, 2002	Plant Sold, O&M obligation complete, $50,000 lump sum payment

Pacific Gas and Electric Company

375 North Wiget Lane, Suite 150
Walnut Creek, CA 94598
510/746-4282

April 14, 1997

Jack McNally, Business Manager
Local Union No. 1245
International Brotherhood of
Electrical Workers, AFL-CIO
P.O. Box 4790
Walnut Creek, CA 94598

Dear Mr. McNally:

At the time the parties reached agreement on generation divestiture, the parties had not considered that under applicable federal law, the lump sum payments had ramifications on the wages of bargaining unit employees that went well beyond the parties' intent regarding the lump sum payments. The Company and Union agree to establish a subcommittee to address these issues and attempt to devise a plan that meets the intent of the parties. In no event, shall the subcommittee devise a plan that results in a gross dollar amount paid to appropriate bargaining unit employees that is less than the lump sum to which the parties have already agreed-to.

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

Sincerely,

David J. Bergman
Chief Negotiator