

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



June 3, 2009

Advice Letter 2978-G

Brian K. Cherry
Vice President, Regulatory Relations
Pacific Gas and Electric Company
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

**Subject: Easement Quitclaim and Sale of a Gas Distribution Line to the
State of California, Department of Corrections and Rehabilitation –
Request for Approval Under Section 851**

Dear Mr. Cherry:

Advice Letter 2978-G is effective January 29, 2009.

Sincerely,

A handwritten signature in blue ink that reads "Julie A. Fitch".

Julie A. Fitch, Director
Energy Division



Brian K. Cherry
Vice President
Regulatory Relations

77 Beale Street, Room 1087
San Francisco, CA 94105

Mailing Address
Mail Code B10C
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177

Fax: 415.973.7226

December 17, 2008

Advice 2978-G

(Pacific Gas and Electric Company ID U 39 G)

Public Utilities Commission of the State of California

Subject: Easement Quitclaim and Sale of a Gas Distribution Line to the State of California, Department of Corrections and Rehabilitation – Request for Approval Under Section 851

Purpose

Pursuant to the authority granted in Decisions (D.) 99-12-030 and 04-08-031, Pacific Gas and Electric (“PG&E”) hereby requests approval from the California Public Utilities Commission (“Commission”) under Public Utilities Code § 851¹ of a proposed sale of limited sole-customer public utility facilities, including a quitclaim of a gas distribution easement and sale of accompanying gas main and associated appurtenances, to the State of California, Department of Corrections and Rehabilitation (“the State” or “San Quentin”). A detailed description of the facilities to be sold is provided in Attachment 1 – Purchase and Sale Agreement (“Agreement”), Exhibit A (“Material Inventory”). The Agreement is based on the form of purchase and sale agreement previously approved by the Commission in Decision (D.) 04-08-031.

At the request of the State, PG&E is also seeking expedited processing of this Advice Letter in order to avoid funding losses and increased costs that the State would experience if approval is not received by February 2009.

Background

PG&E requests Commission approval under Public Utilities Code §851 to quitclaim a gas distribution easement located at San Quentin State Prison in the vicinity of the City of Larkspur, County of Marin (“Property”) and sell the accompanying

¹ In addition to qualifying as a sole-customer facility sale, the subject sale of public utility facilities also meets the criteria for the Advice Letter review process outlined in Resolution ALJ-202 because it does not exceed the \$5 million threshold and is exempt from environmental review under the California Environmental Quality Act (CEQA), as discussed below.

natural gas main and associated appurtenances ("Facilities"). The Facilities are located entirely on the Property and currently serve only the correctional facility at San Quentin. PG&E will continue to provide gas service to the prison, but the State will pay to relocate the meter to a point outside the prison walls.

Approval of PG&E's request is in the mutual interests of the State, PG&E, its ratepayers and the public as it will resolve meter reading access and maintenance issues for PG&E within the prison grounds by relocating the meter to the State's property line outside the prison walls pursuant to PG&E's franchise agreement. Over time, significant difficulties with access to the current meter location have arisen as it is now located in a high security area requiring at least two stages of cumbersome high security clearance each time admittance is needed. Moving the meter will not only result in operational efficiencies by facilitating meter reading, but addresses PG&E employee safety concerns as well as concerns that, in the event of an emergency, it would be difficult to gain quick access. Approval of this request will also benefit ratepayers because the line behind the meter will then become a private gas service "house line" for the correctional facility at San Quentin and State would take on future maintenance costs related to this sole customer line, which would become part of an extensive gas house line network already maintained by the State at this facility. The State has asked PG&E to request expedited processing of this filing to avoid funding losses and increased costs the State would experience if approval is not received by February 2009.²

In accordance with the format of advice letter directed in Resolution ALJ-202 (Appendix A, Section IV.), PG&E provides the following information related to the proposed transaction:

(1) Identity and Addresses of All Parties to the Proposed Transaction:

Pacific Gas and Electric Company	State of California
Andrew L. Niven	Department of Corrections and Rehabilitation
Gail L. Slocum	Attention: Mr. Bobby Khaghani,
Law Department	Project Director III
P.O. Box 7442	9838 Old Placerville Rd., Suite B
San Francisco, CA 94120	

² Specifically, the State requests approval by the CPUC's January 29, 2009 decision conference, or earlier if possible, as the quitclaim of the easement is needed as part of the State Department of Corrections' efforts to obtain bond funding which, among other things, will pay for a minor relocation of a small portion of the existing gas line, if necessary, to accommodate a possible future prison expansion. General Order 96-B governing Advice Letters provides that "the General Rules and Industry Rules shall be liberally construed to secure just, speedy and inexpensive handling of informal matters [which are either uncontested or for which a hearing is not required in order to resolve the contested issues].... In a specific instance and for good cause, the Director of the appropriate Industry Division *may shorten the protest and reply period* under the General Rules." (G.O. 96-B, 1.3, emphasis added.) In addition, PG&E agrees in advance to a shortened comment period and to waive its right to reply comments on a draft resolution approving this transaction, if the Energy Division deems a shortened period is appropriate in order to expedite the CPUC's final decision thus helping the State Department of Corrections and Rehabilitation avoid any losses of funding or additional costs to taxpayers.

Telephone: (415) 973-6583
Facsimile: (415) 973-0576
Email: GLSG@pge.com

Sacramento, CA 95827
Telephone: (916) 255-2882
Fax: (916) 255-6062
Email: bobby.khaghani@cdcr.ca.gov

(2) Complete Description of the Property Including Present Location, Condition and Use:

Currently, PG&E owns, operates and maintains a 3,730 foot long, 6-inch diameter steel natural gas main along with 1420 feet of 2-inch steel pipe, 80 feet of two-inch plastic pipe, and associated appurtenances serving and crossing through the Property, which includes the San Quentin Correctional Facility grounds within Assessor's Parcel Numbers 018-154-15 & 16. This gas main, which was built in approximately 1939 and is in relatively good condition, currently provides lower pressure (5 pound) service only to the correctional facility at San Quentin. It was listed as a distribution line (as it previously had served other nearby load that now receives distribution service from a different line), therefore the remaining line is being reclassified as a "service" line as it currently only has one customer (San Quentin prison). PG&E obtained its easement over the Property pursuant to Grants of Easement dated September 30, 1963, and recorded in Book 1767 of Official Records at page 477; and dated August 25, 1993, and recorded as Official Records Series No. 93-093702, Marin County Records ("Easement"). (In 1993, a portion of the 1963 easement was quitclaimed for an exchange easement to accommodate a realignment of a portion of the gas main.)

The current location of the meter is within the prison walls and now requires PG&E to go through at least two separate levels of high-security entry clearance, presenting a very difficult, time-consuming and cumbersome process every time PG&E requires access to the meter.

The State is willing to pay PG&E the \$37,104 cost to physically separate the Facilities from the balance of PG&E's gas distribution system and to relocate the meter to the franchise area outside the prison walls to facilitate meter reading and reduce potential problems with safety for PG&E employees. The portion of the gas line that is beyond the meter, which has a Net Book Value of \$38,797 would be removed from rate base, would still provide gas service to San Quentin. PG&E would sell this service line to San Quentin for \$1 and quitclaim its easement as requested by the State. Ratepayers benefit because the line behind the meter would become a "house line" for the San Quentin facility, thus the State Department of Corrections would take over responsibility to maintain this line, along with the extensive network of house gas lines that the State already maintains between the buildings at the prison. Also, the State and the public benefit by avoiding funding losses the State will experience if approval is not

received by February 2009. The pertinent quitclaim agreement is included in Attachment 2.

(3) Intended Use of the Property:

In conjunction with the relocation of the meter to outside the prison walls as described above, the State would like to purchase from PG&E the portion of the gas main located on the Property and continue to use this gas main solely as a private gas service "house line" to serve its correctional facility at San Quentin. A map of the Property is provided in Attachment 3.

The sale of the Facilities benefits PG&E ratepayers because the line behind the meter will then become a private gas service "house line" for the correctional facility at San Quentin and State would take on future maintenance costs related to this sole customer line, which would become part of an extensive gas "house line" network already maintained by the State at this facility. This arrangement is not unlike several similar arrangements with other PG&E customers. Additionally, this transaction satisfies ALJ-202, Section II, Item No. 9, regarding transactions involving a transfer or change in ownership of facilities currently used in regulated utility operations, where the transaction will not result in a significant physical or operational change in the facility other than in the normal course of business.

(4) Complete Description of Financial Terms of the Proposed Transaction:

As provided for in the Purchase and Sale Agreement, the State will pay \$37,104 for severance costs and relocation of the meter, and PG&E and the State have agreed to a purchase price of One Dollar (\$1.00) for the Facilities. PG&E is not charging consideration for the quitclaim of the gas distribution easement. It will be a financial benefit to PG&E's customers to quitclaim the easement and sell the Facilities because the State will take on the future maintenance costs associated with the ownership of these Facilities, which will become part of the extensive network of "house lines" already maintained by the State at this facility.

(5) Description of How Financial Proceeds of the Transaction Will Be Distributed:

PG&E's proposed distribution of the financial proceeds allocates one hundred percent of the fee (\$1.00) to be credited to ratepayers through the Depreciation Reserve, consistent with CFR Title 18, Electric Plant Instruction 10, paragraph F, and D.99-12-030, p. 6. PG&E's proposal is also consistent with the process for allocating gains and losses on the sale of depreciable utility assets in the Commission's Gain on Sale decisions in D.06-05-041 as amended by D.06-12-043.

(6) Statement on the Impact of the Transaction on Ratebase and Any Effect on the Ability of the Utility to Serve Customers and the Public:

This transaction will not affect the ability of the utility to serve other customers and the public as the only customer served by this line is the correctional facility at San Quentin.

PG&E is selling the gas main for \$1.00 because the State is paying the \$37,104 cost of severance and moving the meter, and sale of the gas main and facilities will result in an avoidance of the maintenance and replacement costs associated with the ownership of the easement and pipeline and appurtenances, to the benefit PG&E and its customers.

As a result of the sale, PG&E's rate base will be reduced by \$38,797 over the life of the asset class.

(7) The Original Cost, Present Book Value, and Present Fair Market Value for Sales of Real Property and Depreciable Assets, and a Detailed Description of How the Fair Market Value Was Determined (e.g., Appraisal):

The Present Fair Market Value for the Facilities was calculated by the Replacement Cost New Less Depreciation Method (RCNLD) method at \$202,793. The current Replacement Cost New was estimated by PG&E's Engineering and Planning Department. The appraisal Depreciation was based on Present-Worth, Remaining-Life depreciation. Remaining life was computed based on the depreciation parameters stipulated by the Commission and Present-Worth was computed at 8.79% rate.

The Original Cost is \$103,908 and Present Net Book Value is \$38,797, as provided in Attachment 4.

It is reasonable to charge the State \$1 to purchase the Facilities, plus the \$37,104 cost of severance and moving the meter, as this total is comparable to the Present Net Book Value of \$38,797, and because this minimizes the impact on taxpayers.

(8) The Fair Market Rental Value for Leases of Real Property, and a Detailed Description of How the Fair Market Rental Value Was Determined:

Not applicable.

(9) For Fair Market Rental Value of the Easement or Right-of-Way and a Detailed Description of How the Fair Market Rental Value Was Determined:

Along with the sale of the gas main, PG&E is also quitclaiming its easement affecting the Property since it will no longer be needed. PG&E will not be collecting any consideration for the quitclaim. Since the State will now own the gas line, as a matter of real property law the easement merges with the fee ownership and the quitclaiming of the easement is a mere formality that will clear an encumbrance from the State property.

(10) A Complete Description of any Recent Past (Within the Prior Two Years) or Anticipated Future Transactions that May Appear To Be Related to the Present Transaction:

Not applicable; there are no other related transactions between PG&E and the State Department of Corrections and Rehabilitation relating to the San Quentin Correctional facility.³

(11) Sufficient Information and Documentation (Including Environmental Review Information) to Indicate that All Criteria Set Forth in Section II(A) of Resolution ALJ-202 Are Satisfied:

PG&E has provided Information in this advice letter to meet the eligibility criteria under the advice letter pilot program. The proposed transaction will not have an adverse effect on the public interest because it will not interfere in any way with the operation of PG&E's facilities, or with the provision of service to PG&E's customers. In fact, the proposed transaction will serve PG&E customer interests because of operational efficiencies from relocating the meter and because the State will take on future maintenance costs associated with the ownership of the Facilities. The proposed transaction is under the \$5 million financial threshold for this type of transaction.

Under the existing circumstances no CEQA review is required for this transaction, as discussed in Section (13) below.

(12) Additional Information to Assist in the Review of the Advice Letter:

Not applicable.

(13) Environmental Information

The proposed Facilities sale constitutes a change in ownership and no non-exempt direct or indirect significant environmental impacts will occur as a

³ During adoption of the Advice Letter pilot program in ALJ-186 (later followed by ALJ-202), this category of information was included to enable the CPUC to ensure that utilities were not seeking to circumvent the \$5 million Advice Letter threshold by dividing what is a single asset with a value of more than \$5 million into component parts each valued at less than \$5 million, which is clearly not the case here. (See CPUC Resolution ALJ-186, issued August 25, 2005, mimeo, p.5.)

result of the sale of these specific facilities. This transaction satisfies ALJ-202, Section II, Item No. 9 regarding transactions involving a transfer or change in ownership of facilities currently used in regulated utility operations, where the transaction will not result in a significant physical or operational change in the facility other than in the normal course of business. Accordingly, for the reasons discussed below, and as stated in D.99-12-030 (pp. 7, 9), this advice letter does not require review under the California Environmental Quality Act ("CEQA"). In addition, this filing will not increase any other rate or charge, cause the withdrawal of service, or conflict with any rate schedule or rule.

a. Exemption

- i. Has the proposed transaction been found exempt from CEQA by a government agency?
 1. If yes, please attach notice of exemption. Please provide name of agency, date of Notice of Exemption, and State Clearinghouse number.
 2. If no, does the applicant contend that the project is exempt from CEQA? If yes, please identify the specific CEQA exemption or exemptions that apply to the transaction, citing to the applicable State CEQA Guideline(s) and/or Statute(s).

This transaction, including relocation of the meter set per standard distribution practices, is exempt under Section 15301(b) of the CEQA guidelines which exempts minor alterations to existing utility structures, facilities, mechanical equipment, or topographic features involving negligible or no expansion of use..." (See Section 15301(b) and (d) of the CEQA Guidelines, 14 Cal. Code Regs., Section 15300, et seq.; see *also*, CPUC Resolution E-4143 in which the CPUC found that the removal of a switching station and the rebuilding of the continuity of a transmission line as part of an electric utility facility transfer met the criteria for Section 15301(b) categorical exemption as a minor alteration of existing utility structures.) In addition, as to the sale and quitclaim of the easement, the Commission has previously ruled that if the property being exchanged "will be used in the same manner as previously, and neither applicant seeks authority from the Commission for a change in the existing use, there is no substantial evidence of any significant impact on the environment, and no CEQA review is required." (D.99.03.033 (1999) Cal. PUC LEXIS 408.) In this instance, ownership of the pipeline is merely being transferred from PG&E to the State with the meter set moved in a standard manner, after which the Facilities sold will be a

“house line” to serve the prison facility. The transfer transaction does not alter the use of the pipeline and neither PG&E nor the State seeks authority to change its use. Therefore this transaction should be deemed exempt from CEQA review.

b. Not a “Project” Under CEQA

- i. If the transaction is not a “project” under CEQA, please explain why.

See above discussion.

Protests

Anyone wishing to protest this filing may do so by letter sent via U.S. mail by facsimile or electronically, any of which must be received no later than 20 days after the date of this filing, which is **January 6, 2009**. Protests should be mailed to:

CPUC Energy Division
Attention: Tariff Unit, 4th Floor
505 Van Ness Avenue
San Francisco, CA 94102

Facsimile: (415) 703-2200
E-mail: mas@cpuc.ca.gov and jnj@cpuc.ca.gov

Copies of protests also should be mailed to the attention of the Director, Energy Division, Room 4004, at the address shown above.

The protest also should be sent via U.S. mail (and by facsimile and electronically, if possible) to PG&E at the address shown below on the same date it is mailed or delivered to the Commission.

Pacific Gas and Electric Company
Attention: Brian Cherry
Vice President, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177

Facsimile: (415) 973-7226
E-mail: PGETariffs@pge.com

Effective Date:

Pursuant to the review process outlined in Resolution ALJ-202, PG&E requests that this advice filing become effective by Commission resolution at the January 29, 2009 meeting, or soon as possible. PG&E agrees in advance to a shortened review and comment period and waiving its right to reply comments on a draft resolution approving this request, if the Energy Division deems a shortened period appropriate and/or necessary in order to expedite final approval to help the State Department of Corrections avoid any losses of funding, as discussed earlier in this filing. **PG&E submits this filing as a Tier 3.**

Notice:

In accordance with General Order 96-B, Section IV, a copy of this advice letter is being served on the Energy Division and the Division of Ratepayer Advocates. In addition, in accordance with General Order 96-B, Section IV, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list. Address change requests should be directed to Rose De La Torre at (415) 973-4716. Advice letter filings can also be accessed electronically at <http://www.pge.com/tariffs>.

A handwritten signature in cursive script that reads "Brian Cherry / mt".

Vice President, Regulatory Relations

Attachments

cc: Service List - Advice Letter 2978-G

***** **SERVICE LIST Advice 2978-G** *****
APPENDIX A

Angela K. Minkin
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 505 Van Ness Avenue
 San Francisco, CA 94102
 (415) 703-2008
ang@cpuc.ca.gov

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Brewster Fong
 Division of Ratepayer Advocates
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 San Francisco, CA 94102
 (415) 703- 2187
bfs@cpuc.ca.gov

***** **AGENCIES** *****

County of Marin Public Works
 Farhad Mansourian, Director
 3501 Civic Center Drive Room #304
 San Rafael, CA 94903
 Telephone: (415) 499-6530
 Fax: (415) 499-3799
 Email: DPW_Webmaster@co.marin.ca.us

***** **3rd Party** *****

State of California
 Department of Corrections and Rehabilitation
 Attn: Mr. Bobby Khaghani, Project Director III
 9838 Old Placerville Rd., Suite B
 Sacramento, CA 95827
 Telephone: (916) 255-2882
 Fax: (916) 255-6062
 Email: bobby.khaghani@cdcr.ca.gov

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY

ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Pacific Gas and Electric Company (ID U39 M)**

Utility type:

- ELC GAS
 PLC HEAT WATER

Contact Person: Linda Tom-Martinez

Phone #: (415) 973-4612

E-mail: lmt1@pge.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
 PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: **2978-G**

Tier: 3

Subject of AL: Easement Quitclaim and Sale of a Gas Distribution Line to the State of California, Department of Corrections and Rehabilitation – Request for Approval Under Section 851

Keywords (choose from CPUC listing): Section 851

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: D.99-12-030 and D.04-08-031

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL: No

Summarize differences between the AL and the prior withdrawn or rejected AL¹: _____

Is AL requesting confidential treatment? If so, what information is the utility seeking confidential treatment for:

Confidential information will be made available to those who have executed a nondisclosure agreement: Yes No

Name(s) and contact information of the person(s) who will provide the nondisclosure agreement and access to the confidential information: _____

Resolution Required? Yes No

Requested effective date: **January 29, 2009**

No. of tariff sheets: N/A

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: N/A

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets: N/A

Protests, dispositions, and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Tariff Files, Room 4005
DMS Branch
505 Van Ness Ave.,
San Francisco, CA 94102
jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Pacific Gas and Electric Company
Attn: Brian K. Cherry
Vice President, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, CA 94177
E-mail: PGETariffs@pge.com

PG&E Advice 2978-G

Attachment 1

**PURCHASE AND SALE AGREEMENT
(Customer Specific Sales)**

By and between

PACIFIC GAS AND ELECTRIC COMPANY

and

**The State of California
Department of Corrections and Rehabilitation**

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PURCHASE AND SALE AGREEMENT

DISTRIBUTION:

Original
Copy
Copy

Svc Pmg
Division
PG&E

REFERENCE:

ORDER NO.
AP NO.
D&C NO.

THIS PURCHASE AND SALE AGREEMENT (this "Agreement") is made and entered into as of this 15 day of DECEMBER, 2001, the ("Effective Date") by and between **PACIFIC GAS AND ELECTRIC COMPANY**, a California corporation ("PG&E"), and The State of California, Department of Corrections and Rehabilitation ("Buyer").

RECITALS:

A. PG&E currently owns the facilities (the "Facilities") described on Exhibit A attached hereto. The Facilities are located on the real property (the "Land") described on Exhibit B attached hereto, which real property is either owned by Buyer or Buyer has adequate land rights.

B. The Facilities are no longer necessary to PG&E in the performance of its duties to the public.

C. Buyer has expressed a desire to purchase the Facilities, and PG&E is willing to sell the Facilities to Buyer on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the respective covenants and agreements contained in this Agreement, PG&E and Buyer each agree as follows:

1. **DEFINITIONS.** The following terms shall have the meanings ascribed to them below for purposes of this Agreement:

1.1 **Agreement.** "Agreement" has the meaning given in the preamble paragraph.

1.2 **Bill of Sale.** "Bill of Sale" means a document transferring title to the Facilities to Buyer, which document shall be substantially in the form of Exhibit C attached hereto.

1.3 **Business Day.** "Business Day" means a day other than Saturday, Sunday or a day on which (i) banks are legally closed for business in the State of California; or (ii) PG&E is closed for business.

1.4 **Buyer.** "Buyer" has the meaning given in the preamble paragraph.

1.5 **CEQA.** "CEQA" has the meaning given in Section 5.2.

1.6 **Claims.** "Claims" has the meaning given in Section 7.1.

1.7 **Closing.** "Closing" has the meaning given in Section 6.1.

1.8 Closing Date. "Closing Date" means the date PG&E delivers the Bill of Sale to Buyer.

1.9 CPUC. "CPUC" means the California Public Utilities Commission, or its regulatory successor, as applicable.

1.10 CPUC Approval. "CPUC Approval" means final, unconditional approval (including exhaustion of all administrative and judicial remedies or the running of time periods and statutes of limitation for rehearing and judicial review without rehearing or judicial review being sought) of this Agreement and the transactions contemplated hereby on terms and conditions acceptable to PG&E in its good faith discretion, including approval of PG&E's proposed accounting and ratemaking treatment of the sale.

1.11 CPUC Approval Date. "CPUC Approval Date" means the date on which CPUC approval of this Agreement and the transactions contemplated hereby on terms and conditions acceptable to PG&E in its good faith discretion, including approval of PG&E's proposed accounting and ratemaking treatment of the sale, becomes final, unconditional and unappealable (including exhaustion of all administrative and judicial remedies or the running of time periods and statutes of limitation for rehearing and judicial review without rehearing or judicial review being sought).

1.12 Effective Date. "Effective Date" has the meaning given in the preamble paragraph.

1.13 Environmental Requirements. "Environmental Requirements" means any applicable statutes, regulations or ordinances now in force or that may later be in force relating to the protection of human health or safety, or regulating or relating to industrial hygiene or environmental conditions, or the protection of the environment, or pollution or contamination of the air, soil, surface water or groundwater, including laws, requirements and regulations pertaining to reporting, licensing, permitting, investigating and remediating emissions, discharges, releases or threatened releases of such substances into the air, surface water, or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of such substances. Environmental Requirements include: the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. § 9601 et seq.) ("CERCLA"); the Hazardous Materials Transportation Act (49 U.S.C. § 5101 et seq.); the Resource Conservation and Recovery Act (42 U.S.C. § 6901 et seq.); the Federal Water Pollution Control Act (33 U.S.C. § 1251 et seq.); the Clean Air Act (42 U.S.C. § 7401 et seq.); the Clean Water Act (33 U.S.C. §§1251 et seq.); the Toxic Substances Control Act (15 U.S.C. § 2601 et seq.); the Oil Pollution Act (33 U.S.C. § 2701 et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act, (7 U.S.C. §§136 et seq.); the Emergency Planning and Community Right-to-Know Act (42 U.S.C. § 11001 et seq.); the Porter-Cologne Water Quality Control Act (Cal. Wat. Code § 13020 et seq.); the Safe Drinking Water and Toxic Enforcement Act of 1986 (Cal. Health & Safety Code § 25249.5 et seq.); the Carpenter-Presley-Tanner Hazardous Substance Account Act (Health and Safety Code §§25300 et seq.); and the Hazardous Waste Control Act (Cal. Health & Safety Code § 25100 et seq.).

1.14 Excluded Taxes. "Excluded Taxes" means (a) Taxes (other than any sales, use, gross receipts, transfer or property Taxes, or any Taxes in the nature of sales, use, gross receipts, transfer or property Taxes) imposed on PG&E that are capital gains Taxes, minimum or alternative minimum Taxes, accumulated earnings Taxes, franchise Taxes or Taxes on or measured by gross or net income, capital or net worth of PG&E; and (b) property

Taxes to the extent the payment is addressed in Section 3.4(b), and is not required to be reimbursed to PG&E by Buyer.

1.15 Estimated Closing Date. "Estimated Closing Date" has the meaning given in Section 6.1.

1.16 Facilities. "Facilities" has the meaning given in Recital Paragraph A.

1.17 Governmental Authority. "Governmental Authority" means any federal, state, local or other governmental, regulatory or administrative agency, commission, department, board, subdivision, court, tribunal, or other governmental arbitrator, arbitral body or other authority.

1.18 Hazardous Substances. "Hazardous Substances" means any hazardous or toxic material or waste, which is or becomes regulated by Environmental Requirements. Without limiting the generality of the foregoing, Hazardous Substances include any material or substance: (a) now or hereafter defined as a "hazardous substance," "hazardous waste," "hazardous material," "extremely hazardous waste," "restricted hazardous waste" or "toxic substance" or words of similar import under any applicable Environmental Requirements; or (b) which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic or otherwise hazardous, and is now or hereafter regulated as a Hazardous Substance by the United States, the State of California, any local governmental authority or any political subdivision thereof, or which cause, or are listed by the State of California as being known to the State of California to cause, cancer or reproductive toxicity; or (c) the presence of which poses or threatens to pose a hazard to the health or safety of persons or to the environment; or (d) which contains gasoline, diesel fuel or other petroleum hydrocarbons; or (e) which contains lead-based paint or other lead contamination, polychlorinated biphenyls ("PCBs") or asbestos or asbestos-containing materials or urea formaldehyde foam insulation; or (f) which contains radon gas; (g) fuel or chemical storage tanks, energized electrical conductors or equipment, or natural gas transmission or distribution pipelines; and (h) other potentially hazardous substances, materials, products or conditions.

1.19 Land. "Land" means the real property described on Exhibit B attached hereto.

1.20 Legal Requirements. "Legal Requirements" means all laws, statutes, ordinances, rules, regulations, requirements or orders of any Governmental Authority now in force or that may later be in force, and the conditions of any permit, certificate, license or other approval issued by public officers relating to the Facilities, including Environmental Requirements.

1.21 Mortgage. "Mortgage" means the Indenture of Mortgage dated March 11, 2004, as supplemented through the Closing Date.

1.22 PG&E Parties. "PG&E Parties" means PG&E and/or each and all of its past, present and future officers, directors, partners, employees, agents, representatives, shareholders, attorneys, affiliates, parent and subsidiary corporations, divisions, insurance carriers, heirs, legal representatives, beneficiaries, executors, administrators, predecessors, transferees, successors and assigns.

1.23 Potential Environmental Hazards. "Potential Environmental Hazards" means electric fields, magnetic fields, electromagnetic fields, electromagnetic radiation, power frequency fields, and extremely low frequency fields, however designated, and whether emitted by electric transmission lines, other distribution equipment or otherwise.

1.24 Purchase Price. "Purchase Price" has the meaning given in Section 3.1.

1.25 Severance Costs. "Severance Costs" has the meaning given in Section 3.2.

1.26 Tax Claim. "Tax Claim" has the meaning given in Section 3.3(e).

1.27 Taxes. "Taxes" mean all federal, state, local or foreign income, ad valorem, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property (including assessments, special assessments, special district assessments, escape assessments, benefit assessments and maintenance assessments, fees or other charges or surcharges of any nature based on the use or ownership of real property), personal property, sales, use, documentary transfer, registration, value added, alternative and add-on minimum, estimated taxes, and all other taxes of any kind whatsoever, including all interest, penalties, fines and additions thereto, whether disputed or not, including all items for which liability arises as a transferee or successor-in-interest.

2. PURCHASE AND SALE OF FACILITIES.

Subject to the terms and conditions of this Agreement, PG&E agrees to sell, convey, assign, transfer and deliver to Buyer, and Buyer agrees to purchase and acquire from PG&E, all of PG&E's right, title and interest in the Facilities.

3. PURCHASE PRICE AND OTHER COSTS.

3.1 Purchase Price. Subject to adjustment as provided in this Section 3.1, the purchase price ("Purchase Price") for the Facilities is One Dollar (\$1.00). The Purchase Price is based upon the Facilities existing on the Effective Date. If any additions to or retirements from the Facilities are made after the Effective Date and prior to the Closing Date, the Purchase Price shall be adjusted upward or downward, as the case may be, in accordance with the Reproduction Cost New Less Depreciation method of valuing assets, using Eight point seven nine percent (8.79%) present worth depreciation. PG&E shall provide Buyer with written notice of the adjusted Purchase Price no later than the ten (10) Business Days after the CPUC Approval Date. If the Purchase Price is adjusted upward by more than ten percent (10%), Buyer may terminate this Agreement without further liability by providing written notice to PG&E within ten (10) Business Days of Buyer's receipt of notice of the adjusted Purchase Price.

3.2 Severance Costs. In addition to the Purchase Price, Buyer shall pay to PG&E the sum of Thirty seven thousand, one hundred four Dollars and ten cents (\$37,104.10) to reimburse PG&E for the cost of physically separating the Facilities from the balance of PG&E's distribution facilities and relocating the gas meter ("**Severance Costs**").

3.3 Taxes.

(a) Except for any Excluded Taxes for which Buyer will have no liability, Buyer shall pay all Taxes arising in connection with the sale and transfer of the Facilities (or any part thereof), this Agreement or the transactions contemplated herein, or the receipt of the Purchase Price or other amounts hereunder, regardless of whether levied or imposed on or with respect to PG&E, Buyer or all or any part of the Facilities or any use thereof, and regardless of when such Taxes are levied or imposed. Without limiting the generality of the foregoing, Buyer shall pay PG&E a charge to cover PG&E's estimated liability for federal and state income tax on the severance work, calculated at the tax factor approved by the CPUC for the Income Tax Component of Contributions, if applicable.

(b) State and local personal property Taxes relating to the Facilities for the tax year (ending June 30) will be prorated between Buyer and PG&E on the following basis: PG&E is to be responsible for all such Taxes for the period up to the Closing Date; and Buyer is responsible for all such Taxes for the period on and after the Closing Date. All Taxes assessed on an annual basis will be prorated on the assumption that an equal amount of Taxes applies to each day of the year, regardless of how any installment payments are billed or made, except that Buyer will bear all supplemental or other state and local personal property Taxes which arise out of a change in ownership of the Facilities. In addition, Buyer acknowledges that the Facilities are assessed by the California State Board of Equalization as of January 1 of each year, and, if the Closing occurs between January 1 and June 30, PG&E must pay personal property taxes arising out of the ownership of the Facilities for the subsequent fiscal year. If the Closing occurs between January 1 and June 30, Buyer will deposit with PG&E the full amount to pay personal property taxes for the tax year beginning on July 1, in addition to the prorated amount of personal property taxes for the current tax year (ending June 30), and PG&E will pay the personal property taxes for these tax years before they become delinquent; provided however, that PG&E may pay such taxes in installments as permitted by law. If the personal property taxes for the tax year beginning on July 1 are not available as of the Closing, then the amount due from Buyer to PG&E for such tax year will be estimated on the basis of the prior year's personal property taxes and such amount will be subject to adjustment after the Closing. If the Closing occurs between July 1 and December 31, Buyer will deposit with PG&E the prorated amount of personal property taxes for the tax year in which the Closing occurs and PG&E will pay the personal property taxes for such tax year before they become delinquent; provided however, PG&E may pay such taxes in installments as permitted by law.

(c) PG&E will be entitled to any refunds or credits of Taxes relating to the Facilities that are allocable to the period prior to the Closing Date. Buyer will promptly notify and forward to PG&E the amounts of any such refunds or credits to PG&E within five (5) Business Days after receipt thereof. Buyer will be entitled to a refund of Taxes relating to the Facilities that are allocable to the period on and after the Closing Date. PG&E agrees to reasonably cooperate with Buyer's efforts to obtain such refund.

(d) After the Closing Date, Buyer will notify PG&E in writing, within five (5) Business Days after Buyer's receipt of any correspondence, notice or other communication from a taxing authority or any representative thereof, of any pending or threatened tax audit, or any pending or threatened judicial or administrative proceeding that involves Taxes relating to the Facilities for the period prior to the Closing Date, and furnish PG&E with copies of all correspondence received from any taxing authority in connection with

any audit or information request with respect to any such Taxes relating to the Facilities for the period prior to the Closing Date.

(e) Notwithstanding any provision of this Agreement to the contrary, with respect to any claim for refund, audit, examination, notice of deficiency or assessment or any judicial or administrative proceeding that involves Taxes relating to the Facilities for the period either entirely prior to the Closing Date or both prior to and after the Closing Date (collectively, "Tax Claim"), the parties will reasonably cooperate with each other in contesting any Tax Claim, including making available original books, records, documents and information for inspection, copying and, if necessary, introduction as evidence at any such Tax Claim contest and making employees available on a mutually convenient basis to provide additional information or explanation of any material provided hereunder with respect to such Tax Claim or to testify at proceedings relating to such Tax Claim. PG&E will control all proceedings taken in connection with any Tax Claim that pertains entirely to the period prior to the Closing Date, and PG&E and Buyer will jointly control all proceedings taken in connection with any Tax Claim pertaining to the period both prior to and after the Closing Date. Buyer has no right to settle or otherwise compromise any Tax Claim which pertains entirely to the period prior to the Closing Date; and neither party has the right to settle or otherwise compromise any Tax Claim which pertains to the period both prior to and after the Closing Date without the other party's prior written consent.

(f) The obligations of the parties pursuant to this Section 3.3 shall survive the Closing.

4. CONDITIONS PRECEDENT.

4.1 Conditions to Buyer's Obligations. Buyer's obligation under this Agreement to purchase the Facilities is subject to the fulfillment or waiver of each of the following conditions precedent:

(a) PG&E shall have performed or complied in all material respects with all covenants, agreements and conditions contained in this Agreement to be performed or complied with by PG&E at or prior to the Closing.

(b) No suit, action or other proceeding shall be pending before any court or Governmental Authority which seeks to restrain or prohibit any of the transactions contemplated by this Agreement or to obtain material damages or other material relief in connection with this Agreement or the transactions contemplated hereby.

4.2 Conditions to PG&E's Obligations. PG&E's obligation under this Agreement to sell the Facilities to Buyer is subject to the fulfillment or waiver of each of the following conditions precedent:

(a) Buyer shall have performed or complied in all material respects with all covenants, agreements and conditions contained in this Agreement to be performed by Buyer at or prior to the Closing.

(b) No suit, action or other proceeding shall be pending before any court or Governmental Authority which seeks to restrain or prohibit any of the transactions contemplated by this Agreement or to obtain material damages or other material relief in connection with this Agreement or the transactions contemplated hereby.

4.3 CPUC Approval. The obligation of each party to close the sale of the Facilities is conditioned upon obtaining CPUC Approval on or prior to the Closing Date. PG&E shall have the right (but not the obligation) to extend the Estimated Closing Date to obtain CPUC Approval as set forth in Section 6.1. PG&E shall use good faith efforts to obtain CPUC Approval, and Buyer agrees to cooperate with PG&E's efforts to obtain CPUC Approval, including by promptly reviewing and signing the application for CPUC Approval. Buyer acknowledges and agrees that PG&E makes no representation or warranty with respect to the likelihood of obtaining CPUC Approval, and Buyer hereby waives all Claims against PG&E that may arise as a result of the need for CPUC Approval or PG&E's failure to obtain CPUC Approval, unless PG&E did not make a good faith effort to obtain CPUC Approval. If CPUC Approval has not been obtained on or prior to the Estimated Closing Date, as the same may be extended, the provisions of Section 4.4 below shall apply. Nothing in this Section in any way imposes upon PG&E an obligation to accept any term or condition imposed by the CPUC as a condition of its approval which term or condition is not acceptable to PG&E in its sole discretion.

4.4 Satisfaction or Waiver of Conditions. Buyer may waive any of the conditions precedent set forth in Section 4.1, and PG&E may waive any of the conditions precedent set forth in Section 4.2. Neither party shall have the right to waive the condition precedent set forth in Section 4.3. Subject to the foregoing, in the event that any of the conditions precedent set forth in this Section 4 shall not be satisfied or waived on or before the Estimated Closing Date (as the same may be extended), then the party whose obligations are subject to such condition precedent shall have the right to terminate this Agreement upon written notice to the other party, and PG&E and Buyer shall thereupon each be released from all obligations under this Agreement, except those which expressly survive termination.

5. CONDITION OF FACILITIES.

5.1 Prior Inspection. Buyer acknowledges that prior to the execution of this Agreement, Buyer has had ample opportunity to inspect the Facilities and has inspected the Facilities to its satisfaction. Based on Buyer's independent investigation of the Facilities, Buyer has decided to execute this Agreement.

5.2 Compliance with Legal Requirements and Governmental Approvals Except for (a) CPUC Approval; and (b) PG&E's obligations under Section 6.4; Buyer, at Buyer's sole expense, is responsible for complying with all Legal Requirements and obtaining all authorizations, consents, licenses, permits and approvals of Governmental Authorities and third persons required by applicable Legal Requirements or required by any such third persons in connection with the consummation of the transactions contemplated by this Agreement and with Buyer's operation of the Facilities, whether as a result of the PCB content or otherwise, including all consents to the assignment from PG&E to Buyer of the Facilities (or any portion thereof). Notwithstanding the foregoing, Buyer is responsible for complying with the California Environmental Quality Act ("CEQA") to the extent applicable, and satisfying, at Buyer's sole expense, any and all mitigation measures under CEQA that may apply to Buyer's acquisition or operation of the Facilities. Buyer shall promptly notify PG&E of any and all mitigation measures that may affect PG&E. If PG&E determines in good faith that any such mitigation measures may adversely affect PG&E, PG&E shall have the right, without liability to Buyer, to terminate this Agreement upon written notice to Buyer. In the event of such termination, PG&E and Buyer shall each be released from all obligations under this Agreement, except those that expressly survive termination. Buyer's obligations under this Section 5.2 shall survive the termination of this Agreement or the Closing.

5.3 Disclosure Regarding Hazardous Substances. PG&E hereby discloses to Buyer that Potential Environmental Hazards and Hazardous Substances, including PCBs, may be present at, in, on, under, about, contained in, or incorporated in the Facilities or the Land, or portions thereof. Buyer represents that it is purchasing the Facilities for Buyer's own use, and not for resale. Buyer will continue to use the Facilities substantially in the manner in which they are currently being used for distribution purposes. If Buyer sells the Facilities or the Land, or any part thereof, it shall disclose, in writing, to all potential buyers, prior to the sale, that Potential Environmental Hazards and Hazardous Substances, including PCBs, may be present at, in, on, under, about, contained in, or incorporated in the Facilities or the Land, or portions thereof. Further, in the event the Facilities or the Land (or any portion thereof) are sold, conveyed or transferred in any manner to a person other than PG&E, Buyer shall incorporate in the agreement effectuating such transfer, language substantially in the same form as this paragraph. Buyer's obligations under this Section 5.3 shall survive the Closing.

5.4 Disclaimers Regarding the Facilities. BUYER ACKNOWLEDGES THAT IT IS RELYING UPON ITS OWN INDEPENDENT INVESTIGATION IN DECIDING TO PURCHASE THE FACILITIES. BUYER EXPRESSLY DISCLAIMS RELIANCE ON ANY REPRESENTATIONS, WARRANTIES OR GUARANTIES, EITHER EXPRESS OR IMPLIED, BY PG&E, ITS OFFICERS, DIRECTORS, COUNSEL, REPRESENTATIVES OR AGENTS. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, PG&E EXPRESSLY DISCLAIMS ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE, EXPRESS OR IMPLIED, AS TO THE CONDITION, VALUE OR QUALITY OF THE FACILITIES, THE PROSPECTS (FINANCIAL AND OTHERWISE) OF THE FACILITIES, THE QUALITY OF WORKMANSHIP OF THE FACILITIES, OR THE ABSENCE OF ANY DEFECTS THEREIN, WHETHER LATENT OR PATENT. PG&E FURTHER SPECIFICALLY DISCLAIMS ANY REPRESENTATION OR WARRANTY REGARDING POTENTIAL ENVIRONMENTAL HAZARDS, THE PRESENCE OF HAZARDOUS SUBSTANCES, COMPLIANCE OF THE FACILITIES WITH ENVIRONMENTAL REQUIREMENTS, OR LIABILITY OR POTENTIAL LIABILITY ARISING UNDER ENVIRONMENTAL REQUIREMENTS. NO SCHEDULE OR EXHIBIT TO THIS AGREEMENT, NOR ANY OTHER MATERIAL OR INFORMATION PROVIDED BY OR COMMUNICATIONS MADE BY PG&E, WILL CAUSE OR CREATE ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED.

5.5 "AS IS" SALE. THE FACILITIES ARE BEING TRANSFERRED "AS IS, WHERE IS, AND WITH ALL FAULTS" IN THEIR EXISTING CONDITION ON THE CLOSING DATE, WITHOUT ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND BY PG&E, EXPRESS, IMPLIED OR STATUTORY, AND WITHOUT RECOURSE AGAINST PG&E, EXCEPT AS SET FORTH IN THIS AGREEMENT. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, PG&E EXPRESSLY DISCLAIMS: (A) ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY; (B) ANY IMPLIED OR EXPRESS WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE; AND (C) ANY IMPLIED OR EXPRESS WARRANTY OF CONFORMITY TO MODELS OR MATERIALS.

5.6 Maintenance of Facilities Pending Closing. From the Effective Date through the Closing Date, PG&E will, at its expense, operate and maintain the Facilities in a manner consistent with PG&E practices.

6. CLOSING.

6.1 Closing Date. The parties estimate that the closing of this transaction (the "Closing") will take place on February 27, 2009 (the "Estimated Closing Date"); provided,

however, that if the CPUC Approval Date has not occurred prior to the Estimated Closing Date, PG&E shall have the right (but not the obligation) to extend the Estimated Closing Date for up to an additional one (1) year to obtain CPUC Approval, in which case the Closing Date shall occur on the date specified by PG&E, which date shall be no later than one hundred eighty (180) days following the CPUC Approval Date. If PG&E fails to obtain CPUC Approval prior to the Estimated Closing Date (as the same may be extended), this Agreement shall automatically terminate and except for agreements that expressly survive the termination of this Agreement, all obligations and liabilities of the parties under this Agreement shall terminate. If the conditions set forth in Section 4 have been satisfied (or waived by the party for whose benefit such condition precedent exists) prior to the Estimated Closing Date, the parties may mutually agree to accelerate the Closing Date. In addition, the parties may mutually agree to extend the Closing Date to take into account the scheduling of the final reading of electrical meters, weather conditions that may delay severance work, and other similar matters. The parties shall reasonably cooperate in modifying the Closing Date to accommodate the requirements of the other party, provided that in the event of any emergency situation or for other good cause, PG&E may unilaterally delay the Closing Date for a maximum of forty-five (45) days by written notice to Buyer. Upon request by PG&E, Buyer shall acknowledge the Closing Date in writing; provided, however, that Buyer's failure to execute such acknowledgement shall not affect the Closing Date.

6.2 Delivery of Funds and Documents. The parties shall take the following actions on the respective dates specified below:

(a) Within ten (10) Business Days after written request, Buyer shall pay to PG&E in U.S. dollars the Purchase Price, the Severance Costs, and the Taxes (to the extent the amount owing by Buyer to PG&E is determined as of the date of the request), provided that PG&E shall not request such payment until approximately thirty (30) Business Days prior to the Closing Date, or sooner as mutually agreed.

(b) On the Closing Date, PG&E shall deliver to Buyer an original Bill of Sale duly executed by PG&E. The parties agree that delivery of the Bill of Sale shall be effective upon the earlier of (i) delivery to Buyer by hand of an original Bill of Sale; or (ii) Buyer's receipt of a facsimile transmission of the Bill of Sale as evidenced by electronic confirmation of receipt. If delivery is made by facsimile transmission, PG&E shall concurrently send the original document(s) to Buyer by registered or certified mail or overnight courier.

(c) On the Closing Date, PG&E shall sever the Facilities from the balance of PG&E's distribution system. Buyer hereby acknowledges receipt of the severance engineering drawings, a copy of which is attached hereto as Exhibit D.

6.3 Assumption of Liabilities. Upon the Closing Date, Buyer will assume all obligations and liabilities of any kind or nature whatsoever related to, arising from, or associated with ownership or possession of the Facilities.

6.4 Warranty of Title and Removal of Lien of Mortgage. PG&E (i) warrants that upon CPUC Approval and execution and delivery of the Bill of Sale, Buyer shall have good title to the Facilities, free and clear of all liens and encumbrances except for the lien of the Mortgage and (ii) within a reasonable time after the Closing Date, PG&E shall cause the Facilities to be released from the lien of the Mortgage.

6.5 Survival. The covenants, agreements, and obligations of PG&E and Buyer contained in Section 6.3 and Section 6.4 shall survive the Closing.

7. RELEASE.

7.1 Release. Buyer, for itself, and for any future owners or holders of all or a part of the Facilities and/or the Land, and each of their respective predecessors, successors, assigns, licensees, officers, directors, employees, agents, partners, shareholders, transferees, parent and subsidiary corporations, legal representatives, heirs, beneficiaries, executors and administrators hereby fully and forever releases, exonerates, discharges and covenants not to sue PG&E Parties of, from and for any and all losses (including diminution in the value of the Land and other consequential damages), costs, claims, demands, actions, suits, orders, causes of action, obligations, controversies, debts, expenses, accounts, damages, judgments and liabilities of whatever kind or nature (including fines and civil penalties), and by whomsoever asserted, in law, equity or otherwise, whether known or unknown, (each a "Claim" and, collectively, "Claims") arising from or in any way connected with the Facilities, including Claims relating to PG&E's maintenance of the Facilities prior to the Closing, Claims relating to Potential Environmental Hazards, and Claims relating to the presence of PCBs or any other Hazardous Substances in the Facilities and/or in, on or about the Land.

7.2 Statutory Waiver. Buyer acknowledges that it may hereinafter discover facts different from or in addition to those, which it now knows or believes to be true with respect to the matters that are the subject of this Agreement, and agrees that this Agreement shall remain in effect in all respects, notwithstanding the discovery of such different or additional facts. In addition, Buyer understands and agrees that its agreements and covenants contained in this Agreement extend to all Claims of any nature and kind, known or unknown, suspected or unsuspected, based in whole or in part on facts existing in the past or as of the date hereof, and in that regard, Buyer acknowledges that it has read, considered and understands the provisions of Section 1542 of the California Civil Code which reads as follows:

Section 1542. General Release

A general release does not extend to claims which a creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

Based upon the advice of its counsel, Buyer knowingly and voluntarily waives and relinquishes any and all rights that it may have under Section 1542 as well as under the provisions of all comparable, equivalent, or similar statutes and principles of common law or other decisional law of any and all states of the United States or of the United States. Buyer understands and acknowledges the significance and consequences of this waiver and hereby assumes the risk of any injuries, losses or damages which may arise from such waiver.

7.3 Survival. The releases, covenants, agreements, and obligations of Buyer contained in Section 7.1 and Section 7.2 shall survive the termination of this Agreement or the Closing.

8. INDEMNITY. Buyer agrees and covenants, at its sole cost and expense, to indemnify, protect, defend and hold the PG&E Parties harmless, to the fullest extent permitted by law, from and against any and all Claims (including the payment of damages, both actual and

consequential, the payment of penalties and fines, the payment of the actual fees and expenses of experts, attorneys and others, and the payment of the cost of environmental investigations, monitoring, containment, abatement, removal, repair, cleanup, restoration, remedial work and other "response costs" under CERCLA or any other Environmental Requirements) arising from or in any way connected with: (a) any inspection of the Facilities, or activities conducted in connection therewith by Buyer, its employees, agents, or contractors prior to the Closing, including Claims arising from the passive or active negligence of PG&E Parties; or (b) the ownership, possession, use or operation of the Facilities from and after the Closing; or (c) Potential Environmental Hazards relating to the Facilities or (d) the presence, disposal, dumping, escape, seepage, leakage, spillage, discharge, emission, pumping, emptying, injecting, leaching, pouring, release or threatened release of PCBs or any other Hazardous Substances which occur on or after the Closing Date in connection with the Facilities; or (e) violation of any Legal Requirements which occur on or after the Closing Date. Notwithstanding anything to the contrary in this Section 8, Buyer shall not be required to indemnify, protect, defend or hold PG&E Parties harmless from or against any Claims that are brought by current or former employees of PG&E, their heirs, beneficiaries, executors or administrators, and which relate to such employees' activities in connection with the Facilities within the scope of their employment by PG&E. If any action or proceeding is brought against any one or more PG&E Parties for any Claim against which Buyer is obligated to indemnify or provide a defense hereunder, Buyer, upon written notice from PG&E, shall defend such action or proceeding at Buyer's sole expense by counsel approved by PG&E, which approval shall not be unreasonably withheld, conditioned or delayed. Buyer's obligation to defend the PG&E Parties includes the obligation to defend claims and participate in administrative proceedings, even if they are false or fraudulent. The covenants, agreements and obligations of Buyer contained in this Section 8 shall survive the termination of this Agreement or the Closing.

9. MISCELLANEOUS.

9.1 Time of Essence. Time is of the essence of this Agreement and each and every provision hereof.

9.2 Further Assurances. Each party hereto agrees to execute and deliver to the other party such further documents or instruments as may be necessary or appropriate in order to carry out the intentions of the parties as contained in this Agreement.

9.3 Binding Effect; Assignment. This Agreement shall be binding upon, and shall inure to the benefit of, the heirs, successors and assigns of the parties hereto.

9.4 Severability. If any provision of this Agreement shall be unenforceable or invalid, the same shall not affect the remaining provisions of this Agreement and the provisions of this Agreement are intended to be and shall be severable; provided, however, if such unenforceability or invalidity alters the substance of this Agreement (taken as a whole) so as to deny either party, in a material way, the realization of the intended benefit of its bargain, such party may terminate this Agreement by notice to the other within thirty (30) Business Days after the final determination. If such party so elects to terminate this Agreement, PG&E and Buyer shall thereupon each be released from any obligations under this Agreement, except those that expressly survive termination.

9.5 Governing Laws. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of California.

9.6 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

9.7 Notices. Any notice or other communication required or permitted under this Agreement shall be in writing and shall be either personally delivered or transmitted by registered or certified mail, return receipt requested, postage prepaid, or by a nationally recognized overnight courier, such as FedEx or Airborne Express, addressed to the parties as follows:

If to PG&E:

Errol Kissinger
Regulatory Relations Department
Pacific Gas and Electric Company
P.O. Box 770000, Mail Code B10A
San Francisco, CA 94177

With a copy to:

Gail Slocum
Law Department
Pacific Gas and Electric Company
P.O. Box 7442, Mail Code B30A
San Francisco, CA 94120

If to Buyer:

State of California
Department of Corrections and Rehabilitations
Attention: Mr. Bobby Khaghani, Project Director III
9838 Old Placerville Rd, Suite B
Sacramento, CA 95287

The date of any notice or communication shall be deemed to be the date of receipt if delivered personally, or the date of the receipt or refusal of delivery if transmitted by mail or overnight courier. Any party may change its address for notice by giving notice to the other party in accordance with this Section 9.7.

9.8 Attorneys' Fees. In the event that either party shall bring an action to enforce its rights under this Agreement, the prevailing party in any such proceeding shall be entitled to recover its reasonable attorneys' fees, costs and expenses (including accountants', consultants' or other professionals' fees, investigation expenses and any and all other out-of-pocket expenses), including in connection with any appeal thereof. Any such attorneys' fees and expenses incurred by either party in enforcing a judgment in its favor under this Agreement shall be recoverable separately from and in addition to any other amount included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Agreement and to survive and not be merged into any such judgment. For purposes hereof, the reasonable fees of in-house attorneys who perform services in connection with any such enforcement action are recoverable. The covenants of PG&E and Buyer contained in this Section 9.8 shall survive the termination of this Agreement or the Closing.

9.9 Limitation on Liability. Buyer expressly agrees that the obligations and liabilities of PG&E under this Agreement and any document referenced herein shall not constitute personal obligations of the officers, directors, employees, agents, affiliates, members, representatives, stockholders or other principals or representatives of PG&E. The limitations contained in this Section 9.9 shall survive the termination of this Agreement or the Closing.

9.10 Statute of Limitations. Any action by Buyer arising out of or in any way connected with the sale contemplated by this Agreement, whether sounding in tort, contract, strict liability or otherwise, must be commenced within two (2) years after the cause of action therefor has accrued.

9.11 Exhibits. The following Exhibits are attached hereto and incorporated by reference into this Agreement:

Exhibit A	Description of the Facilities
Exhibit B	Description of the Land
Exhibit C	Form of Bill of Sale
Exhibit D	Severance Engineering Drawings

9.12 Arbitration. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by binding arbitration in accordance with the Commercial Arbitration rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitrator(s) may be entered in any court having jurisdiction. All arbitration proceedings shall be conducted in San Francisco, California. Each party in any proceeding shall bear its own costs. The substantive law applied in the arbitration shall be the laws of the State of California without regard to its conflict of law principles, unless the claims or defenses raise issues of federal law in which case federal substantive law shall apply to those particular claims or defenses. The arbitrator shall be bound to apply the substantive law, and shall also be empowered to hear and determine dispositive motions, including motions to dismiss and motions for summary judgment. The arbitrator shall not be authorized to award any damages not permitted under Section 9.12.

9.13 Interpretation. The language in all parts of this Agreement shall be construed according to its normal and usual meaning and not strictly for or against either PG&E or Buyer. The headings of the paragraphs of this Agreement are inserted solely for convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction of any terms or provisions hereof. The words "include," "includes," and "including" shall be deemed to be followed by the phrase "without limitation."

9.14 Survival. The attorneys' fees provision, the limitation on liability, the waivers of the right of jury trial, the other waivers of claims or rights, the releases and the obligations of Buyer under this Agreement to indemnify, protect, defend and hold harmless PG&E Parties shall survive the termination of this Agreement or the Closing, and so shall all other obligations or agreements of PG&E or Buyer which by their terms survive the termination of this Agreement or the Closing or which by their nature arise or occur following the termination of this Agreement or the Closing.

9.15 Authority. Each party represents and warrants that the execution, delivery and performance of this Agreement has been duly authorized by such party and each person signing this Agreement on its behalf is duly and validly authorized to do so.

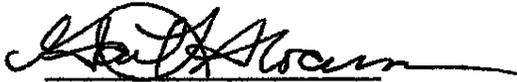
9.16 Prior Agreements. This Agreement and the exhibits hereto contain the entire understanding of the parties relating to the subject matter hereto and shall supersede any prior written or oral agreements or communications between the parties pertaining to such subject matter.

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement as of the day and year first above written.

PG&E:

PACIFIC GAS AND ELECTRIC COMPANY,
a California corporation

APPROVED AS TO FORM:



Attorney

By: Charles T. ...
Name: CHARLES TWAMUGASU
Its: SI DIRECTOR - SUPPLY CHAIN

Date: 12-16-08

BUYER:

STATE OF CALIFORNIA,
DEPARTMENT OF CORRECTIONS &
REHABILITATION

By: Bobby R. ...
Name: BOBBY RHAGHAN I
Its: (R)

Date: DEC 15, 2008

EXHIBIT A

DESCRIPTION OF THE FACILITIES

3730 feet of six (6) inch steel gas main, 1420 feet of two (2) inch steel pipe, and 80 feet of two (2) inch plastic pipe, together with all appurtenant connections and facilities.

EXHIBIT B

DESCRIPTION OF THE LAND

The 142.05 acre parcel of land, situate in Rancho Punta de Quentin, conveyed by Stephen A. Wright and others to The People of the State of California by deed dated August 25, 1869 and recorded in the office of the County Recorder of the County of Marin in Book "H" of Deeds at page 365, and the 52.055 acre parcel of land, situate in said rancho, conveyed by David Porter to The People of the State of California by deed dated July 15, 1880 and recorded in the office of said County Recorder in Book "U" of Deeds at page 598; excepting therefrom that portion thereof lying within the boundary lines of the county road known as Sir Francis Drake as shown upon that certain map entitled "SIR FRANCIS DRAKE BLVD. EAST RIGHT OF WAY THROUGH SAN QUENTIN PRISON" File No. 74-45, on file in the Office of the County of Marin Department of Public Works.

EXHIBIT C

FORM OF BILL OF SALE

DISTRIBUTION		REFERENCE
Original	Buyer	ORDER NO.
Copy	Division	AP NO.
Copy	Svc. PIng.	SAP BD NO.
		Wire Transfer No.

BILL OF SALE

Pursuant to that certain Purchase and Sale Agreement dated _____, 20__ (the "Purchase Agreement"), by and between **PACIFIC GAS AND ELECTRIC COMPANY**, a California corporation ("PG&E"), and The State of California, Department of Corrections and Rehabilitation ("Buyer"), effective on the Closing Date (as defined in the Purchase Agreement), PG&E hereby sells, assigns, transfers, and delivers to Buyer all of PG&E's right, title and interest in and to the property described on Exhibit A, attached hereto and incorporated herein by this reference (collectively, the "Facilities").

THE FACILITIES ARE BEING TRANSFERRED "AS IS, WHERE IS, AND WITH ALL FAULTS" IN THEIR EXISTING CONDITION ON THE CLOSING DATE, WITHOUT ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND BY PG&E, EXPRESS, IMPLIED OR STATUTORY, AND WITHOUT RECOURSE AGAINST PG&E. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, PG&E EXPRESSLY DISCLAIMS: (A) ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY; (B) ANY IMPLIED OR EXPRESS WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE; AND (C) ANY IMPLIED OR EXPRESS WARRANTY OF CONFORMITY TO MODELS OR MATERIALS.

Notwithstanding the above paragraph, PG&E (i) warrants that upon CPUC Approval and execution and delivery of the Bill of Sale, Buyer shall have good title to the Facilities, free and clear of all liens and encumbrances except for the lien of the Mortgage and (ii) within a reasonable time after the Closing Date, PG&E shall cause the Facilities to be released from the lien of the Mortgage.

This Bill of Sale is executed pursuant to authorization contained in _____, dated _____, and is subject to all the terms and conditions of the Purchase Agreement.

IN WITNESS WHEREOF, PG&E has executed this Bill of Sale as of the date set forth below.

PACIFIC GAS AND ELECTRIC COMPANY,
a California corporation

Dated: _____

By: _____

Name: _____

Its: _____

EXHIBIT D

SEVERANCE ENGINEERING DRAWINGS

12/11/08
5:14 PM

PG&E Advice 2978-G

Attachment 2

RECORDING REQUESTED BY AND RETURN TO:

PACIFIC GAS AND ELECTRIC COMPANY
Santa Rosa Land Services Office
111 Stony Circle
Santa Rosa, CA 95401-9599

Location: City/Uninc _____

Recording Fee \$ _____

Document Transfer Tax \$ _____

- This is a conveyance where the consideration and Value is less than \$100.00 (R&T 11911).
- Computed on Full Value of Property Conveyed, or
- Computed on Full Value Less Liens & Encumbrances Remaining at Time of Sale

(SPACE ABOVE FOR RECORDER'S USE ONLY)

Signature of declarant or agent determining tax

LD# **EASEMENT QUITCLAIM DEED**

PACIFIC GAS AND ELECTRIC COMPANY, a California corporation, hereinafter called PG&E, hereby quitclaims to STATE OF CALIFORNIA, hereinafter called second party, the real property, situate in the county of Marin, state of California, described as follows:

(APN 018-152-12, 018-154-15 & 018-154-16)

- I. The rights and easement granted by the State of California to PG&E by deed dated September 30, 1963, and recorded in Book 1767 of Official Records at page 477, Marin County Records; excepting therefrom the rights and easement previously quitclaimed by PG&E to the State of California by deed dated October 20, 1993, and recorded as Official Record Series Number 94-019252, Marin County Records.
- II. The rights and easement granted by the State of California to PG&E by deed dated August 25, 1993, and recorded as Official Record Series Number 93-093702, Marin County Records.

Second party assumes the entire responsibility and liability for and will protect, indemnify and hold harmless PG&E, its officers, agents, and employees from and against any and all losses, expenses, demands and claims made against PG&E, its officers, agents, and employees by any person or entity because of any injury or illness or alleged injury or illness, including death or property damage, actual or alleged, whether caused by the sole negligence of PG&E or the concurrent negligence of PG&E with second party arising out of or resulting from or in any way connected with the operation, maintenance, possession, use, transportation or disposition of the pipe line facilities located within said easements being quitclaimed, including that caused by hazardous materials on or in them. Second party agrees to defend any suit, action or cause of action brought against PG&E, its officers, agents, and employees, based on any alleged injury, illness or damage covered by this indemnity and to pay all damages, costs and expenses, including attorneys' fees connected therewith resulting therefrom.

As consideration for granting this quitclaim deed, second party hereby acknowledges that they have purchased, by Bill of Sale dated _____, all rights and interests in the pipe

line facilities located within said easements being quitclaimed by PG&E to second party. All costs associated with the removal and disposal of said pipe line facilities shall be at the sole expense of second party.

The real property hereby quitclaimed is no longer necessary or useful to PG&E in the performance by it of its duties to the public.

The parties hereto have executed this agreement this ____ day of _____, 20__.

PACIFIC GAS AND ELECTRIC COMPANY,
a California corporation

By _____
Carl Horikoshi
Supervisor, Land Surveying and
Engineering Support – North Coast

STATE OF CALIFORNIA,

By _____

Title _____

By _____

Title _____

By _____

Title _____

PG&E Advice 2978-G

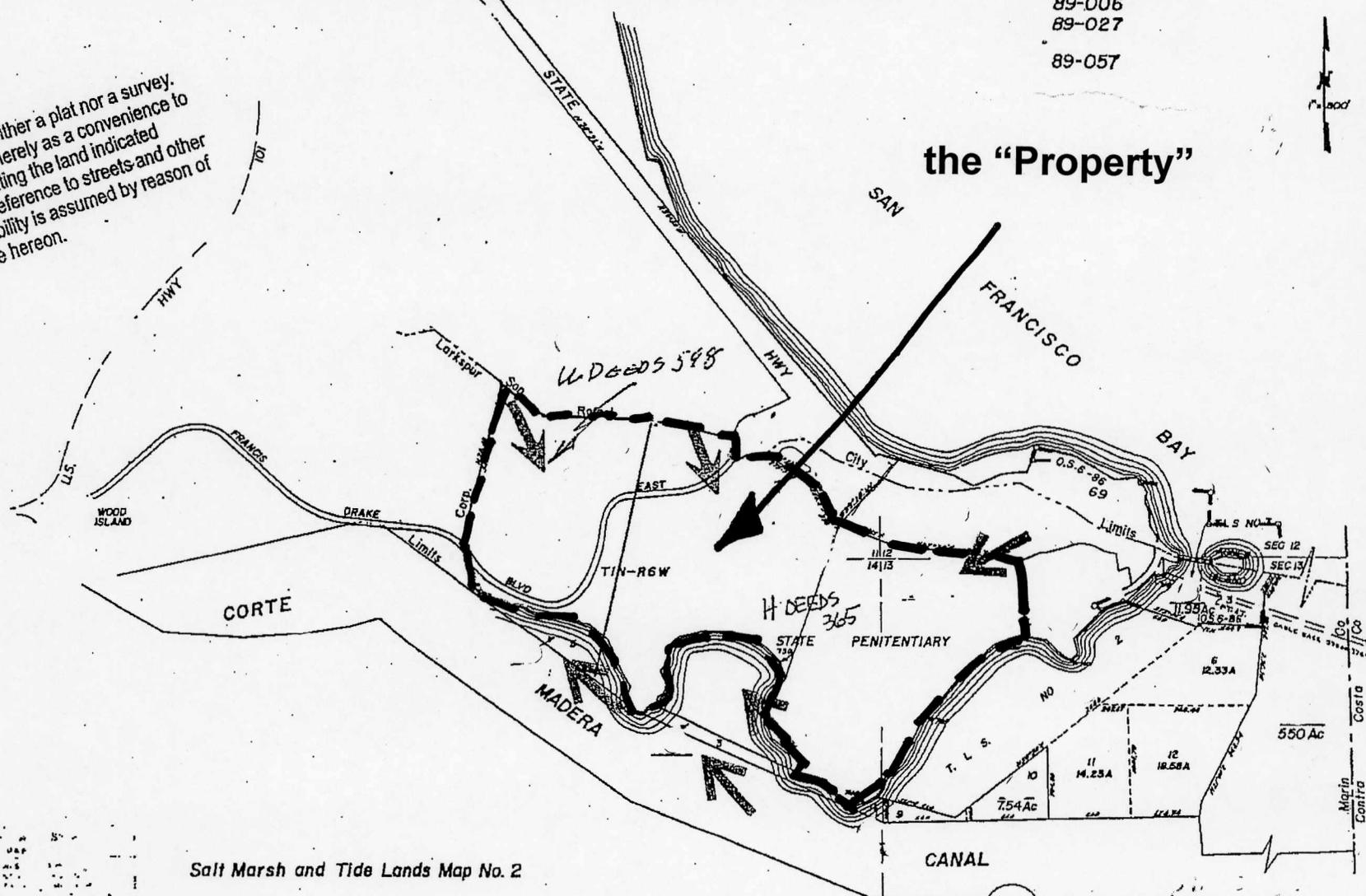
Attachment 3

POR. RANCHO PUNTA DE QUENTIN
 POR. RANCHO SAN PEDRO, SANTA MARGARITA, Y LAS GALLINAS

Tax Rate Area
 89-006
 89-027
 89-057

Notice: this is neither a plat nor a survey.
 It is furnished merely as a convenience to
 aid you in locating the land indicated
 hereon with reference to streets and other
 land. No liability is assumed by reason of
 any reliance hereon.

the "Property"



Salt Marsh and Tide Lands Map No. 2

NOTE—Assessor's Block Numbers Shown in Ellipses.
 Assessor's Parcel Numbers Shown in Circles.

County of Marin, Calif.

PG&E Advice 2978-G

Attachment 4

ATTACHMENT 4
PACIFIC GAS AND ELECTRIC COMPANY
GAS DISTRIBUTION ASSET SALE
to San Quentin
(DOLLARS)

1 SALES PROCEEDS

Sales Price	1
Less: Transaction Costs	0
Net Sale Proceeds	<u>1</u>

2 ALLOCATION OF SALES PROCEEDS BASED ON THE HISTORICAL COST OF PROPERTY

	Historical Cost	Proportional %	Valuation Method
Non-Depreciable Property (Easement)		0.00%	Book Cost
Depreciable Property	103,908	100.00%	Appraisal Nov 2008
	<u>103,908</u>	<u>100.00%</u>	

3 GROSS GAIN/(LOSS) ON SALE

	Historical Cost	Net Book Value	Sales Proceeds	Pre-Tax Gain/(Loss)
Non-Depreciable Property (Easement)			0	0
Depreciable Property	103,908	38,797	1	<u>38,796</u>
	<u>103,908</u>	<u>38,797</u>	<u>1</u>	<u>38,796</u>

4 TAXES ON PROPERTY

	Net Tax Value	Sales Proceeds	Before Tax Gain/ (Loss)	Tax 40.746%
Non-Depreciable Property (Land)	0	0	0	0
Depreciable Property	17,290	1	17,289	7,045
Less Accumulated Deferred Tax				8,089
	<u>17,290</u>	<u>1</u>	<u>17,289</u>	<u>1,044</u>

5 RATE BASE CHANGES

Reduction to Gross Plant	103,908	
Reduction to Depreciation Reserve ¹	103,908	
Accumulated Depreciation		65,111
Long-Term Rate Base Reduction		38,797

¹Depreciation reserve is reduced by the historical cost of depreciable property

**PG&E Gas and Electric
Advice Filing List
General Order 96-B, Section IV**

Aglet	Department of the Army	Northern California Power Association
Agnews Developmental Center	Dept of General Services	Occidental Energy Marketing, Inc.
Alcantar & Kahl	Division of Business Advisory Services	OnGrid Solar
Ancillary Services Coalition	Douglas & Liddell	PPL EnergyPlus, LLC
Anderson & Poole	Douglass & Liddell	Pinnacle CNG Company
Arizona Public Service Company	Downey & Brand	Praxair
BART	Duke Energy	R. W. Beck & Associates
BP Energy Company	Duncan, Virgil E.	RCS, Inc.
Barkovich & Yap, Inc.	Dutcher, John	RMC Lonestar
Bartle Wells Associates	Ellison Schneider & Harris LLP	Recon Research
Blue Ridge Gas	Energy Management Services, LLC	SCD Energy Solutions
Braun & Associates	FPL Energy Project Management, Inc.	SCE
C & H Sugar Co.	Foster Farms	SESCO
CA Bldg Industry Association	Foster, Wheeler, Martinez	SMUD
CAISO	Franciscan Mobilehome	SPURR
CLECA Law Office	G. A. Krause & Assoc.	Santa Fe Jets
CSC Energy Services	GLJ Publications	Seattle City Light
	Goodin, MacBride, Squeri, Schlotz & Ritchie	Sempra Utilities
California Cotton Ginners & Growers Assn	Green Power Institute	Sequoia Union HS Dist
California Energy Commission	Hanna & Morton	Sierra Pacific Power Company
California League of Food Processors	Heeg, Peggy A.	Silicon Valley Power
California Public Utilities Commission	Hitachi	Smurfit Stone Container Corp
Calpine	Hogan Manufacturing, Inc.	Southern California Edison Company
Cameron McKenna	Imperial Irrigation District	St. Paul Assoc.
Cardinal Cogen	Innercite	Sunshine Design
Casner, Steve	International Power Technology	Sutherland, Asbill & Brennan
Cerox	Intestate Gas Services, Inc.	TFS Energy
Chamberlain, Eric	J. R. Wood, Inc.	Tabors Caramanis & Associates
Chevron Company	JTM, Inc.	Tecogen, Inc.
Chris, King	Los Angeles Dept of Water & Power	Tiger Natural Gas, Inc.
City of Glendale	Luce, Forward, Hamilton & Scripps LLP	Tioga Energy
City of Palo Alto	MBMC, Inc.	TransCanada
City of San Jose	MRW & Associates	Turlock Irrigation District
Clean Energy Fuels	Manatt Phelps Phillips	U S Borax, Inc.
Coast Economic Consulting	Matthew V. Brady & Associates	United Cogen
Commerce Energy	McKenzie & Associates	Utility Cost Management
Commercial Energy	Meek, Daniel W.	Utility Resource Network
Constellation	Merced Irrigation District	Utility Specialists
Constellation New Energy	Mirant	Vandenberg Air Force
Consumer Federation of California	Modesto Irrigation District	Verizon
Crossborder Energy	Morgan Stanley	Wellhead Electric Company
Davis Wright Tremaine LLP	Morrison & Foerster	Western Manufactured Housing Communities Association (WMA)
		White & Case
Day Carter Murphy	New United Motor Mfg., Inc.	eMeter Corporation
Defense Energy Support Center	Norris & Wong Associates	
Department of Water Resources	North Coast SolarResources	