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12 PACIFIC GAS AND ELECTRIC COMPANY

13 UNITED STATES BANKRUPTCY COURT
14 NORTHERN DISTRICT OF CALIFORNIA
15 SAN FRANCISCO DIVISION

16 In re

17 PACIFIC GAS AND ELECTRIC
18 COMPANY, a California corporation,

19 Debtor.

20 Federal I.D. No. 94-0742640

Case No. 01-30923 DM

Chapter 11

HEARING

Date: May 9, 2001

Time: 9:30 a.m.

Place: 235 Pine Street, 22nd Floor
San Francisco, California

21 SUPPLEMENTAL DECLARATION OF KENT HARVEY IN SUPPORT
22 OF (1) DEBTOR'S MOTION FOR ORDER APPROVING
23 STIPULATION AUTHORIZING USE OF CASH COLLATERAL IN
24 WHICH MORTGAGE BONDHOLDERS HAVE A BENEFICIAL
25 INTEREST AND GRANTING ADEQUATE PROTECTION, AND
26 (2) DEBTOR'S MOTION FOR ORDER AUTHORIZING CONTINUED
27 USE OF CASH COLLATERAL IN WHICH MORTGAGE
28 BONDHOLDERS HAVE A BENEFICIAL INTEREST

I, Kent Harvey, declare as follows:

1. I am the chief financial officer of Pacific Gas and Electric Company, the debtor and debtor in possession in the above-captioned Chapter 11 case (the "Debtor" or "PG&E"). This Declaration is based on my personal knowledge of the Debtor's operations and financial position. If called as a witness, I could and would testify competently to the facts stated herein.

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HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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1 2. I make this declaration in support of (a) the Debtor's Motion for Approval
2 of Stipulation Authorizing and Restricting Use of Cash Collateral and Granting Adequate
3 Protection submitted concurrently herewith (the "Motion re Cash Collateral Stipulation"),
4 and (b) the Debtor's Emergency Motion for Orders: (1) Authorizing Interim Use Of Cash
5 Collateral In Which Mortgage Bondholders Have A Beneficial Interest; (2) Scheduling And
6 Establishing Deadlines Relating To A Final Hearing On Continued Use Of Cash Collateral;
7 and (3) After Conclusion Of A Final Hearing, Authorizing Continued Use Of Cash
8 Collateral filed with the Court on April 6, 2001 (the "Motion for Use of Cash Collateral").

9 3. Attached hereto as Exhibit 1 is a Statement of Estimated Cash Flows (the
10 "Statement") for PG&E for the remainder of 2001. The Statement was prepared under my
11 direction, and I am informed and believe that it represents the latest forecast of PG&E's
12 sources and uses of cash for the relevant period. Actual cash flow amounts may vary
13 significantly from these estimates due to various factors, which are explained in the
14 Statement. The forecast contains assumptions regarding future decisions the California
15 Public Utilities Committee (the "CPUC") may make that are likely to impact (1) the timing
16 and amount of revenue PG&E is authorized to collect from its customers, (2) amounts that
17 PG&E must pay the California Department of Water Resources (the "DWR") for electricity
18 procured by DWR on behalf of PG&E's customers, and (3) other costs and obligations that
19 the CPUC may seek to impose on PG&E. The forecast also contains assumptions regarding
20 the treatment of certain PG&E costs that are subject to regulation by the CPUC. In addition,
21 the forecast contains assumptions about the willingness of DWR to procure that portion of
22 electricity used by PG&E's customers that PG&E cannot provide from its own resources.
23 Furthermore, the forecast makes assumptions about the anticipated impact of higher prices
24 and conservation efforts on demand for electricity, and also makes assumptions about
25 natural gas prices.

26 4. PG&E has issued certain mortgage bonds (the "Bonds") pursuant to that
27 certain indenture dated December 1, 1920 executed by PG&E, designated the "First and
28 Refunding Mortgage," which indenture has been supplemented by fourteen supplemental

1 indentures (collectively, the "Indenture"). BNY Western Trust Company is the successor
2 trustee (the "Indenture Trustee") under the Indenture.

3 5. Pursuant to the Indenture, PG&E granted a security interest to the Indenture
4 Trustee in virtually all of its existing and after-acquired property (collectively, the
5 "Bondholders' Collateral"), for the benefit of the holders of the Bonds (collectively, the
6 "Bondholders"), to secure PG&E's payment of the Bonds. The Bondholders' Collateral
7 includes, inter alia, all of PG&E's interest in money, documents, instruments, accounts,
8 chattel paper, general intangibles, contract rights and other things in action, and all proceeds
9 thereof.

10 6. The current outstanding amount of each series of the Bonds and their
11 applicable coupon, issue date and maturity date are reflected on Exhibit 2 attached hereto.
12 Interest on the Bonds is payable on June 1 and December 1 each year.

13 7. In my opinion, the Debtor cannot preserve the value of its business without
14 authority to use cash, negotiable instruments, deposit accounts, and other cash equivalents in
15 which the Debtor's estate and the Indenture Trustee have an interest, including the proceeds,
16 products, offspring, rents, and profits of such property (collectively, "Cash Collateral"). If
17 not authorized to use such Cash Collateral, I believe that the Debtor will have insufficient
18 financial resources to purchase electricity and gas, meet its payroll obligations, and pay the
19 myriad other expenses required to operate its business, and thereby provide essential gas and
20 electricity service to millions of customers.

21 8. Attached hereto as Exhibit 3 is a true and correct copy of the proposed
22 Stipulation : (I) Authorizing and Restricting Use of Cash Collateral Pursuant to 11 U.S.C. §
23 363 and Bankruptcy Rule 4001 and (II) Granting Adequate Protection Pursuant to 11 U.S.C.
24 §§ 361 and 363 (the "Stipulation") between PG&E and BNY Western Trust Company, as
25 successor trustee (the "Indenture Trustee") pursuant to that certain indenture dated
26 December 1, 1920 with respect to certain mortgage bonds issued by the Debtor, which has
27 been supplemented by fourteen supplemental indentures (collectively, the "Indenture")

28 9. I am informed and believe that PG&E's entry into and performance under
SUPPLEMENTAL HARVEY DECL. ISO STIPULATION AND MOTION RE USE OF CASH COLLATERAL

1 the Stipulation is in the best interests of the Debtor and its estate, as it will allow PG&E to
2 use Cash Collateral necessary to operate its business, and thereby provide essential gas and
3 electricity service to millions of customers.

4 I declare under penalty of perjury under the laws of the United States of America
5 and the State of California that the foregoing is true and correct. Executed this 26th day of
6 April, 2001 at San Francisco, California.


KENT HARVEY

10 WD 042001/1-1419910/911952/v2

13 HOWARD
14 RICE
NEMEROVSKI
CANADY
BALK
& RABKIN
15 A Professional Corporation

PACIFIC GAS AND ELECTRIC COMPANY
MORTGAGE BONDS PRINCIPAL
040601

First and Refunding Mortgage Bonds *	Current Outstanding	Coupon	Issue Date	Maturity Date
81B	\$45,000,000	7.590%	08/26/81	08/01/11
81B2	\$30,000,000	7.590%	01/04/82	08/01/11
91A	\$166,864,000	8.800%	04/26/91	05/01/24
92A	\$340,324,000	7.875%	03/19/92	03/01/02
92B	\$163,000,000	8.375%	03/31/92	05/01/26
92D	\$326,676,000	8.250%	10/27/92	11/01/22
93A	\$279,690,000	7.250%	03/24/93	03/01/26
93C	\$338,640,000	6.250%	08/02/93	08/01/03
93D	\$401,610,000	7.250%	08/02/93	08/01/26
93E	\$286,495,000	5.875%	09/13/93	10/01/05
93F	\$330,875,000	6.750%	09/13/93	10/01/23
93G	\$337,850,000	6.250%	11/18/93	03/01/04
93H	\$296,200,000	7.050%	11/18/93	03/01/24
PC92A	\$35,000,000	6.625%	04/23/92	08/01/09
PC92B	\$50,000,000	6.350%	12/22/92	08/01/09
PC93A	\$60,000,000	5.875%	08/03/93	08/01/23
PC93B	\$200,000,000	5.850%	12/08/93	12/01/23
TOTALS	\$3,883,324,000			

* Includes bonds held in treasury: \$316,023,000

Pacific Gas and Electric Company

Statement of Estimated Cash Flows April 20, 2001

This document provides the latest forecast of cash flows for Pacific Gas and Electric Company (the "Company"). The purpose of this document is to show the Company's estimated sources and uses of cash, by month, through September 2001, and to explain the assumptions on which the estimates are based. Actual amounts may vary significantly from these estimates, due to various factors which are explained in the Business Overview below, and in the Footnotes following the Statement of Estimated Cash Flows.

Business Overview

Pacific Gas and Electric Company is an electric and gas utility serving a population of 13 million people in central and northern California. Electricity is delivered over 131,000 miles of electric transmission and distribution wires, and gas is delivered through 43,000 miles of gas transmission and distribution pipelines. To build, operate, and maintain this infrastructure, the Company employs 19,000 people, owns a fleet of vehicles, owns and operates its own communications system, and maintains a system of warehouses and service centers throughout its 70,000 square mile service territory.

The Company owns and operates electric generating stations with a capacity of 6,635 megawatts, enough to serve 6.6 million homes. Among the Company's generating facilities are a 2,200 megawatt nuclear power plant (Diablo Canyon), a hydroelectric system with over a hundred generating units and a capacity of almost 4,000 megawatts, and two gas-fired power plants. The Company also has under contract (Power Purchase Agreements, or PPAs) from independent power producers (including those known as "Qualifying Facilities" or "QFs" as well as irrigation districts) about 5,500 megawatts of operational capacity. The Company's own generation and PPAs provide, on average, about two-thirds of the electric energy demand of the Company's end-use customers, although this amount varies throughout the year. Pursuant to California legislation AB 1X, the remainder of electricity required by the Company's customers (the net open position) is intended to be the responsibility of the California Department of Water Resources (DWR) to purchase from others. Power procured by DWR is sold directly to the Company's customers, with the Company acting as the billing and collection agent for DWR. To the extent DWR has not purchased the net open position, the California Independent System Operator (CAISO or ISO) has purchased electricity in the wholesale markets, on behalf of the Company's customers. PG&E believes it is not responsible for the costs associated with these purchases by the ISO.

The Company procures natural gas for its core customers (residential and small commercial customers) through a number of gas producers and marketers under contract with the Company. About two-thirds of the natural gas procured by PG&E comes from

EXHIBIT 2

Canada, and the remainder comes from various states in the Southwest United States. Gas commodity procured by the Company is sold to customers at the Company's cost of procurement, plus the cost of delivering the gas through the Company's system. The prices at which the Company procures gas can vary significantly due to supply and demand, which in turn are often driven by the weather. Gas commodity prices are typically higher during the winter months, when demand for gas is highest due to winter heating. The Company is allowed to adjust gas rates monthly in order to fully collect gas commodity costs from customers.

In recent years electricity consumption has grown at an average annual rate of about two percent, and gas deliveries about 1.5%. Over the last few years the Company's has made annual capital expenditures ranging from \$1.2 to \$1.5 billion for improvements to its electric and gas infrastructure. These expenditures provide for connection of new customers, capacity expansion of the existing system, replacement of older equipment, and improvements to enhance reliability. New gas-fired electric generation coming on line will require expansion of the Company's electric and gas transmission systems over the next several years.

Regulation

Virtually all of the Company's products and services are price-regulated by two agencies: the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Generally, regulated rates are set such that the Company collects sufficient revenue to pay its operating expenses, as well as to recover over time investments in plant and equipment, and to earn a reasonable rate of return based on invested capital or on operating performance.

The CPUC sets the prices, or rates, the Company is allowed to charge its retail customers for gas and electricity distribution service. The CPUC has jurisdiction to regulate the Company's electric and gas distribution service, and gas transmission and storage services. The CPUC regulates the Company's rates and conditions of service, sales of securities, dispositions of utility property, rates of return, rates of depreciation, and long-term resource procurement. In the past, California regulators have provided rate adjustment mechanisms such that when rates in one period provide less than full recovery of the Company's costs, typically commodity costs, rates are adjusted in the next period to recover the shortfall. However, starting in the summer of 2000 with skyrocketing prices of wholesale electricity, California regulators have not set electric rates at a level sufficient to recover the Company's costs, nor have the regulators established any mechanism for the Company to recover the billions of dollars of electric commodity cost shortfalls.

The Federal Energy Regulatory Commission (FERC) has authority over wholesale electric rates, and over retail rates for electric transmission service. The FERC regulates electric transmission rates and access, the operation of the ISO, and contracts involving the wholesale sale of power. Further, most of the Company's hydroelectric facilities are

subject to licenses issued by the FERC. Since 1998, FERC has allowed wholesale electricity prices in California to be established by market forces, rather than by setting cost-based rates for each generator.

The Nuclear Regulatory Commission (NRC) oversees the licensing, construction, operation, and decommissioning of nuclear facilities, including Diablo Canyon and the retired nuclear generation unit at Humboldt bay Power Plant (Unit 3).

Cash Forecast Summary

The Company had a cash balance of \$2.5 billion at April 5, 2001. During the forecast period, the Company assumes that it remains under the protection of the federal bankruptcy court. It is assumed that cash payments for electricity procurement costs do not exceed the cash received from customers for the electric commodity portion of their bills. Because the Company's gas and electric rates are otherwise sufficient to recover the Company's operating costs for gas and electric transmission and distribution, the overall cash position of the Company remains near its April starting point.

However, it is possible that existing and future CPUC ratemaking decisions may mandate that the Company make cash payments for electricity procurement and other utility costs in excess of cash received from customers through retail electric rates. If this occurs, the Company's overall cash position would deteriorate significantly. The Company would challenge such decisions.

Pacific Gas and Electric Company
Statement of Estimated Cash Flows
(Millions of \$)

Line	For the month of	Apr 2001	May 2001	Jun 2001	Jul 2001	Aug 2001	Sep 2001
Cash Flows From Operating Activities							
Receipts from customers:							
1	Electric receipts for DWR	146	180	194	163	152	198
2	Electric receipts - other	376	428	412	517	719	825
3	Gas receipts	525	413	294	243	218	185
4	Total receipts from customers	1,047	1,022	900	923	1,089	1,209
5	Other receipts	1	1	1	1	1	1
6	Total receipts	1,048	1,023	901	924	1,090	1,210
Disbursements:							
7	Purchased power - DWR	-146	-180	-194	-163	-152	-198
8	Purchased power - other	-89	-103	-236	-281	-324	-324
9	Gas (incl UEG)	-415	-218	-158	-149	-143	-144
10	O&M/A&G	-211	-201	-206	-185	-202	-193
11	Interest paid	-11	-11	-130	-9	-10	-11
12	Income and property taxes - net	-37	0	-1	-2	-1	-276
13	Other - net	0	0	0	0	0	0
14	Total disbursements	-909	-712	-925	-789	-832	-1,145
15	Net cash provided by operating activities	139	310	-24	135	259	64
Cash Flows From Investing Activities							
16	Capital expenditures	-135	-126	-94	-131	-122	-129
17	Proceeds from sale of assets	0	0	0	0	0	0
18	Other - net	-3	-1	0	0	-1	0
19	Net cash used by investing activities	-137	-128	-94	-131	-124	-129
Cash Flows From Financing Activities							
20	Rate reduction bonds principal payments	-23	-22	-21	-23	-24	-27
21	Net cash provided(used) by financing activities	-23	-22	-21	-23	-24	-27
22	Net Change in Cash and Cash Equivalents	-21	160	-140	-19	111	-92
23	Cash and Cash Equiv. at Beginning of Month	2,582	2,561	2,721	2,582	2,563	2,674
24	Cash and Cash Equivalents at End of Month	2,561	2,721	2,582	2,563	2,674	2,582

Notes to Statement of Estimated Cash Flows

Cash Receipts (lines 1 - 6): Virtually all cash receipts are from end-use gas and electric customers, and are based on current estimates of sales volumes and currently authorized or proposed CPUC and FERC tariffs. The forecast assumes that a future CPUC order authorizes collection of a three-cent electric retail rate increase no later than June 1, consistent with a CPUC order effective March 27, 2001. This rate increase will result in additional monthly receipts of approximately \$200 million. However, due to the lag between mailing customers' bills and receipt of their payments, the full increase in monthly cash received is not realized until August.

Forecast electric sales volumes reflect the Company's estimate that customers will reduce demand by about 6% in the remainder of the year, relative to 2000 sales, due to higher electric prices and conservation efforts. Actual monthly sales volumes can vary with weather and the level of economic activity. Generally, gas sales are highest in the winter due to heating demand, and electric sales are highest in the summer due to air conditioning load.

Amounts for cash receipts are shown when the cash is estimated to be available to the Company.

Line 1: Electric Receipts for DWR

This line shows the collections from customers for power sales to them by DWR, based on the CPUC order effective March 27, 2001. Pursuant to California legislation AB 1X passed February 1, 2001, DWR retains title to the power it purchases and payment for any sale of power by DWR is a direct obligation of retail end use customers to DWR. The Company acts as the billing and collection agent for DWR.

Amounts shown here assume that the CPUC authorized three-cent per kWh electric rate increase will start to be included in customer bills June 1. The three cent increase is effective April 1, however, billing will not occur until June. Therefore, the forecast assumes that the unbilled amounts from April 1 to the date that billing begins will be collected from customers over twelve months starting with their June 1 bills. Because the CPUC has not finalized its authorization of collection of the three-cent increase, the actual implementation dates and methods may differ from those assumed here, which could impact the cash available and the portion of the Company's revenues the CPUC allocates to DWR.

The amounts shown on this line are equal to, and determined by, the disbursements to DWR shown on line 7. Please see the note to Line 7 for additional information.

Line 2: Electric receipts - other

This line includes payments by retail customers for electric services from the Company, including electric transmission and distribution services as well as power produced or purchased by the Company. Also included are payments from other utilities for their use of the Company's electric transmission and distribution systems payments for other energy-related services.

This line also includes a dedicated rate component of customers' bills which is collected by the Company as a pass-through for the repayment of principal and interest on rate reduction bonds, which were issued in 1997 in connection with the partial deregulation of the electric industry in 1996 under AB 1890.

Line 3: Gas receipts

This line includes gas receipts from core gas customers (residential and commercial gas customers who take "bundled" service from the Company, meaning that the commodity charge and delivery cost are combined into a single rate), as well as receipts for non-core customers who buy commodity gas directly from producers or gas marketers, and pay the Company only for the cost of delivery over the Company's gas system. Gas receipts are seasonal, with gas demand and rates highest in the winter.

Line 5: Other receipts

This line includes estimated amounts the Company may receive from salvage of used equipment, and miscellaneous proceeds from other activities. These amounts are typically immaterial, and are very difficult to forecast with any accuracy. Forecast amounts shown are based on average actual proceeds from past years.

Cash Disbursements (lines 7 – 14): Amounts for disbursements are shown on the date the payment is made, whether by check or electronic funds transfer. Note that checks typically do not clear for several days after they are issued.

Line 7: Purchased power – DWR

Following the decline in the utilities' credit ratings and the consequent unwillingness of electric producers to sell to the utilities, the California legislature passed AB 1X, which authorized DWR to buy sufficient power to meet the utilities' net open position. This forecast assumes that DWR carries out that legislative intent.

Based on an interim order by the CPUC, the amounts shown for DWR purchased power are calculated by multiplying the volume of DWR procurement (assumed to equal the Company's full net open position) by the monthly generation-related component of the Company's overall electric rates. (The generation-related component of electric rates fluctuates throughout the year.)

Future monthly disbursements to DWR will be affected by the size of the Company's net open position, which in turn is driven by the demand for electricity, and the availability of the Company's generation resources, primarily hydroelectric, nuclear and QF generation.

The CPUC has not issued a final order establishing the allocation of electric revenues to DWR. To the extent the Company is required to allocate a larger portion of electric revenues to DWR without increasing rates appropriately, the amount on this line would increase, potentially depleting the Company's cash reserves.

Line 8: Purchased power – other

This line shows payments for electricity to producers under contract with the Company, such as QFs, irrigation districts, bilateral suppliers, and other wholesale generators. Also

included are the Company's pro-rata share of the costs of ancillary and other grid reliability services from the ISO. (These services generally help ensure that extra generating capacity is standing by, ready to accommodate fluctuations in loads if necessary.) QF payments are estimated based on forecast output and forecast QF prices.

Given the assumptions reflected in this forecast, the Company anticipates that it will have sufficient revenues to pay its procurement costs over the forecast period. However, a number of factors could affect this going forward, including the extent to which the ISO attempts to continue to charge the utility for purchases of the portion of the net open position which DWR fails to purchase, the extent to which DWR does not assume responsibility for its pro-rata share of ancillary and related services from the ISO, requirements to increase the portion of electric revenues allocable to the DWR, and prices paid to QFs (which in turn are affected by future gas prices).

Line 9: Gas (incl. UEG)

These payments are to natural gas suppliers for gas delivered to the Company's core gas customers and to interstate pipelines for the transportation of gas into PG&E's system. Although actual gas costs can vary significantly from forecast, the overall impact on cash flows over time is minimal, since PG&E is permitted to adjust its retail gas rates monthly to reflect changes in actual and forecast gas commodity prices. The demand for gas is directly correlated with temperature, with the highest demands in the winter for heating, and the lowest demands in the summer. Cash disbursements for gas can still be high in the non-winter months, since that is when the Company buys gas and injects it into local underground storage fields for withdrawal during the next winter season.

Amounts on this line also contain the cost of natural gas used in the Company's own gas-fired generation units.

Line 10: M&O/A&G

These disbursements are for the costs of operating and maintaining PG&E's gas and electric infrastructure for delivering energy, as well as for the non-fuel costs of the Company's electric generating facilities. These disbursements are for the portion of costs that are not capitalized, and include employee compensation and benefits, payroll taxes, materials and supplies, contract labor, franchise fees paid to the cities and counties the Company serves, and other costs and fees. Activities covered by these costs include, energy efficiency programs, tree trimming, customer service, repair to poles, wires, pipes, towers, substations and other equipment, meter reading, billing, call centers, as well as the administrative costs of running the business. These costs do not fluctuate a great deal from month to month, although certain types of payments, such as franchise fees, are paid once or twice yearly. Unexpected cost increases can occur due to major earthquakes or other events.

Line 11: Interest paid

These disbursements are to holders of the Company's mortgage debt only, as well as the interest portion of the payments made to the rate reduction bond trustee. The Company acts as the billing and collection agent on behalf of the trustee.

Mortgage debt interest is paid in June and December, while interest on rate reduction bonds is paid daily.

Line 12: Income and property taxes – net

Disbursements on this line are for Federal and California income taxes paid, net of any refunds, and for California property taxes. Income tax payments are made quarterly, with the largest payment typically coming in December. PG&E pays property taxes twice a year in April and December.

Line 13: Other – net

No amounts are currently estimated during the forecast period.

Cash Flows from Investing Activities (lines 16 – 18)

Line 16: Capital Expenditures

The Company self-constructs much of the infrastructure used to deliver gas and electric energy. Costs such as meters, poles, transformers, substations, buildings, conductors, switches, vehicles, computers, telecommunications equipment etc., as well as the cost of installation, are capitalized to plant and equipment. Included in this line are the capitalized portion of costs, such as employee compensation and benefits, payroll taxes, materials and supplies, contract labor, interest etc. that are incurred for the construction or major repair of plant and equipment.

Line 17: Proceeds from sale of assets

This line contains a forecast of proceeds from the sale of significant assets. At this time, the Company is not forecasting the sale of any significant assets.

Line 18: Other – net

This line reflects the cost of purchasing nuclear fuel.

Cash Flows from Financing Activities (line 20): This section would typically show the proceeds from the issuance of securities, or the payments for maturing or reacquired debt. Due to the Company's current financial condition, it is unable to issue securities, or to pay the principal of any maturing debt. Hence, there are no financing activities, with one exception described below.

Line 21: Rate reduction bonds matured

These disbursements are the principal portion of the payments made to the rate reduction bond trustee. Like the interest on these bonds, the principal is paid daily.

In December 1997, PG&E Funding LLC (SPE), a special-purpose entity wholly owned by Pacific Gas and Electric Company, issued \$2.9 billion of rate reduction bonds to the California Infrastructure and Economic Development Bank. The proceeds of the rate reduction bonds were used by the SPE to purchase from the Company the right, known as "transition property," to be paid a specified amount from a non-bypassable tariff levied on residential and small commercial customers which was authorized by the CPUC pursuant to state legislation. The SPE is legally separate from the Company, and the assets of the SPE are not available to creditors of the Company, and the transition property is not legally an asset of the Company.

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

In re)	
)	Case No. 01-30923 (DM)
PACIFIC GAS AND ELECTRIC)	Chapter 11 Case
COMPANY, a California corporation,)	
)	HEARING
Debtor.)	Date: May 9, 2001
)	Time: 9:30 a.m.
)	Place: 235 Pine Street, 22 nd Floor
Federal I.D. No. 94-0742640)	San Francisco,
)	California

STIPULATION: (I) AUTHORIZING AND RESTRICTING
USE OF CASH COLLATERAL PURSUANT TO 11 U.S.C.
§ 363 AND BANKRUPTCY RULE 4001 AND (II) GRANTING
ADEQUATE PROTECTION PURSUANT TO 11 U.S.C. §§ 361 AND 363

This Stipulation (the "Stipulation") is made by and among Pacific Gas and Electric Company, a California corporation, and a debtor and debtor-in-possession (the "Debtor"), and BNY Western Trust Company, as successor trustee (the "Indenture Trustee") pursuant to that certain indenture dated December 1, 1920, which indenture has been supplemented by fourteen supplemental indentures (collectively, the "Indenture").

WHEREAS:

A. On April 6, 2001 (the "Petition Date"), the Debtor filed a voluntary petition for relief with this Court under Chapter 11 of the Bankruptcy Code (Case No. 01-30923 (DM) (the "Chapter 11 Case"). The Debtor is authorized to continue to operate its business and manage its property as a debtor in possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

EXHIBIT 3

B. Also on the Petition Date, the Debtor filed an emergency motion for authority to use the Bondholders' (as defined below) cash collateral (the "Cash Collateral Motion"). A preliminary hearing on the Cash Collateral Motion was held before the Court on April 9, 2001 (the "Preliminary Hearing").

C. Counsel for the Indenture Trustee appeared telephonically at the Preliminary Hearing and consented to the Debtor's request for authority to use the Bondholders' cash collateral, on an interim basis, pending a final hearing, which hearing was scheduled for 9:30 a.m. (prevailing pacific coast time) on May 9, 2001 (the "Final Hearing").

D. No trustee or examiner has been appointed in the Chapter 11 Case nor has a request for the appointment of a trustee or examiner been made. On April 11, 2001, the Office of the United States Trustee appointed an official committee of unsecured creditors of the Debtor (the "Committee") and the Committee retained counsel.

E. The Debtor admits (without prejudice to the rights of any third party acting on its own behalf or derivatively through the Debtor in accordance with paragraph 17) that, (i) as of the Petition Date it had approximately \$3.8 billion of bonds issued and outstanding pursuant to the Indenture (the "Bonds") and (ii) the Bonds are secured by first-priority security interests and liens on virtually all of the Debtor's existing and after-acquired real and personal property, including, but not limited to, money, accounts, contract rights, goods, general intangibles, chattel paper, documents, instruments and all proceeds thereof, and all oil, gas, minerals, timber or fixtures which the Debtor owns located in or upon any real estate in any county in the State of California or other State of the United States of America in which the Debtor is now or hereafter the record owner of any interest, and also all and singular the

properties, both real and personal, of every kind and character, which the Debtor shall hereafter acquire, and all proceeds thereof.

F. As of the Petition Date, the Debtor was indebted to the Indenture Trustee and the holders of the Bonds (the "Bondholders") in the aggregate sum of not less than \$3,693,524,000 plus additional interest, costs, fees and expenses thereon as provided in the Indenture (the "Pre-Petition Indebtedness"). Without prejudice to the rights of any third party acting on its own behalf or derivatively through the Debtor in accordance with paragraph 17, the Debtor (a) admits, after due inquiry, the legality, validity and enforceability of the Pre-Petition Indebtedness owing to the Indenture Trustee and the Bondholders and (b) admits, after due inquiry, that the security interests and liens held by the Indenture Trustee in and upon the Pre-Petition Collateral (the "Pre-Petition Bondholder Liens") are duly perfected, legal, valid, binding and enforceable first-priority liens and security interests on the Pre-Petition Collateral, not subject to claim, avoidance, defense, objection, action, counterclaim, setoff, recoupment or subordination under the Bankruptcy Code or applicable non-bankruptcy law, except that such liens and security interests are junior and subordinated to any pre-existing validly perfected and unavoidable liens and security interests that were senior to the Pre-Petition Bondholder Liens as of the Petition Date (the "Senior Liens").

G. Without prejudice to the rights of any third party acting on its own behalf or derivatively through the Debtor in accordance with paragraph 17, the Debtor further admits, after due inquiry, (i) that the Pre-Petition Collateral includes, without limitation, all cash, negotiable instruments, documents of title, securities, deposit accounts or other cash equivalents, whenever acquired, in which the Debtor has an interest, as well as (subject to the Senior Liens) all proceeds of the Pre-Petition Collateral, whether existing before or after the commencement of

the Chapter 11 Cases, which items constitute the Indenture Trustee's and the Bondholders' cash collateral within the meaning of Section 363(a) of the Bankruptcy Code (the "Cash Collateral") and (ii) that the Indenture Trustee and the Bondholders are entitled, pursuant to Sections 361 and 363 of the Bankruptcy Code, to adequate protection of their interests in the Cash Collateral, including adequate protection for any diminution in the value of the Cash Collateral.

H. If not authorized to use the Cash Collateral, the Debtor will be unable to purchase electricity and gas, meet its payroll or the other obligations necessary to operate its business. The Debtor's need to access the Cash Collateral is immediate. In the absence of the proposed use of the Cash Collateral, serious and irreparable harm will occur.

I. The Indenture Trustee will not consent to the use of the Cash Collateral absent the approval of the terms and conditions set forth herein.

J. As reflected in the Debtor's publicly filed financial reports, the Debtor's property, plant and equipment, which is part of the Pre-Petition Collateral, had a net book value of in excess of \$12 billion as of September 30, 2000. The value of the Pre-Petition Collateral is greatly in excess of the amount of the Pre-Petition Indebtedness. As such, the Debtor asserts that the Indenture Trustee and the Bondholders are entitled to post-petition interest and other charges on the Bonds, and the Indenture Trustee is entitled to its post-petition costs, fees and expenses, including reasonable attorneys fees and costs, pursuant to the Indenture, as provided by Section 506(b) of the Bankruptcy Code.

K. The proposed use of the Cash Collateral has been negotiated in good faith and at arms' length between the Debtor and the Indenture Trustee, with both parties represented by counsel.

L. The proposed use of the Cash Collateral is fair and reasonable, reflects the Debtor's exercise of prudent business judgment consistent with its fiduciary duties, and is supported by reasonably equivalent value and fair consideration.

M. Pursuant to the Bankruptcy Code, the Debtor is required to provide adequate protection to the Indenture Trustee and the Bondholder's in respect and to the extent of, inter alia, any diminution of the value of the Cash Collateral. Subject to paragraphs 12 and 18 of this Stipulation, the protections provided pursuant to the terms and conditions of this Stipulation shall be deemed to constitute adequate protection of the interests of the Indenture Trustee and the Bondholders in the Cash Collateral for so long as the Debtor shall be entitled to use the Cash Collateral pursuant to this Stipulation.

IT IS HEREBY STIPULATED, CONSENTED AND AGREED that:

Authorization

1. This Stipulation has no force or effect and the Debtor is not authorized to use any of the Cash Collateral, unless and until this Stipulation is approved by the Court.
2. The Debtor shall use the Cash Collateral only on the terms and subject to the conditions set forth in this Stipulation and the Indenture. Notwithstanding the termination of the Debtor's authority to use the Cash Collateral hereunder, all liens, priorities, rights and remedies provided to the Indenture Trustee and the Bondholder's in this Stipulation shall survive such termination and remain in full force and effect with respect to the Pre-Petition Indebtedness, and any other claims and obligations arising under the Indenture or this Stipulation, outstanding on such termination date.

3. Notwithstanding anything herein to the contrary, no Cash Collateral may be used to investigate, object to or contest in any manner, or otherwise challenge, this Stipulation, the validity, perfection, priority or enforceability of the Pre-Petition Indebtedness or any liens or security interests securing the Pre-Petition Indebtedness; provided, however, that the Committee may utilize the Cash Collateral to investigate any such matters up to and including the point of formal discovery, including, without limitation, any examination or request for production of documents pursuant to Federal Rule of Bankruptcy Procedure 2004.

Acknowledgment of Claims, Liens and Security Interests

4. The Debtor has acknowledged and agreed (without prejudice and subject to the rights of any third party acting on its own behalf or derivatively through the Debtor or its estate in accordance with paragraph 17) for all purposes that as of the Petition Date: (a) the Pre-Petition Indebtedness constituted legal, valid, binding and enforceable obligations of the Debtor, (b) the amount of the Pre-Petition Indebtedness due and payable to the Indenture Trustee and the Bondholders as of the Petition Date is not less than \$3,693,524,000, being the amount due to the Indenture Trustee and the Bondholder's according to the books and records of the Indenture Trustee as of the Petition Date (subject to verification thereof by the Indenture Trustee), (c) the liens and security interests of the Indenture Trustee and the Bondholders upon the Pre-Petition Collateral are legal, valid, binding, perfected and enforceable, not subject to claim, avoidance, defense, objection, action, counterclaim, setoff, recoupment or subordination, except that such liens and security interests are junior and subordinate to the Senior Liens, if any, (d) the Indenture Trustee's and the Bondholders pre-petition claims against the Debtor and the estate of the Debtor with respect to the Pre-Petition Indebtedness are allowed and are valid and

enforceable, not subject to claim, avoidance, defense, objection, action, counterclaim, setoff, recoupment or subordination, in the amount of the Pre-Petition Indebtedness and (e) the Debtor does not possess, may not assert and has waived any claim, objection, action, counterclaim, set-off, recoupment or defense of any kind or nature which could in any way affect the validity, priority, enforceability and nonavoidability of the Pre-Petition Indebtedness or the liens and security interests of the Indenture Trustee and/or the Bondholders upon the Pre-Petition Collateral or which would reduce or affect the obligation of the Debtor to pay the Pre-Petition Indebtedness.

Liens

5. To the extent that, inter alia, the use of the Cash Collateral results in a decrease in the value of the Indenture Trustee's and the Bondholder's interests in the Cash Collateral, and as adequate protection for the use by the Debtor of the Cash Collateral, the Indenture Trustee on its own behalf and on behalf of the Bondholders shall have and are hereby granted (effective upon the date of this Stipulation and without the necessity of the execution by the Debtor, or filing, of security agreements, pledge agreements, mortgages, financing statements or otherwise) a lien and security interest of the same extent, priority and validity as the Pre-Petition Bondholder Liens on all property of the same type and kind as the Pre-Petition Collateral acquired by the Debtor after the Petition Date, except for any claims for relief arising under the Bankruptcy Code (including, without limitation, claims arising under 506(c), 544, 545, 547, 548, 549 and 550 of the Bankruptcy Code).

6. The liens and security interests provided to the Indenture Trustee and the Bondholders herein are hereafter collectively referred to as the "Pre-Petition Bondholder

Replacement Liens" and the property securing the Pre-Petition Bondholder Replacement Liens is hereinafter referred to as the "Post-Petition Collateral". The Pre-Petition Bondholder Replacement Liens shall be deemed perfected as of the commencement of the Chapter 11 Cases, shall not be subject to or pari passu with any lien or security interest existing as of the Petition Date or granted or arising thereafter, other than the Senior Liens, if any, and, except as otherwise specifically provided in this Stipulation, shall be valid and enforceable against any trustee appointed in the Chapter 11 Case or in a subsequent proceeding upon the conversion of the Chapter 11 Case to a case under Chapter 7 of the Bankruptcy Code. No lien or security interest in any property of the Debtor granted or arising on or after the Petition Date (including, without limitation, liens and security interests, if any, granted in favor of any federal, state, municipal or other governmental unit, commission, or board for any liability of the Debtor) shall be created or permitted to be pari passu with, or senior to, the liens and security interests of the Indenture Trustee and the Bondholders in the Pre-Petition Collateral, or the Pre-Petition Bondholder Replacement Liens, except as granted to any holder of a Senior Lien, or as expressly agreed in writing by the Indenture Trustee, which agreement shall not be implied.

7. Without the necessity of the filing of financing statements, mortgages or other documents, this Stipulation shall be sufficient evidence of the Indenture Trustee's and the Bondholder's perfected liens on and security interests in all Post-Petition Collateral as described herein to secure the Pre-Petition Indebtedness and any other claim existing subsequent to the Petition Date under the Indenture. Notwithstanding the foregoing, the Debtor, and its officers or agents on its behalf, is authorized and directed, if so requested by the Indenture Trustee, to execute such documents including, without limitation, pledges, mortgages, deeds of trust and Uniform Commercial Code financing statements and to pay all costs and expenses as may be

reasonably required to provide further evidence of the perfection of the Indenture Trustee's and the Bondholders' liens in the Post-Petition Collateral as provided herein. The stay imposed by Section 362(a) of the Bankruptcy Code is hereby modified to allow the filing and recording of a certified copy of this Stipulation or any such financing statements, notices of lien, mortgages, deeds of trust or similar instruments, and all such documents shall be deemed to have been filed or recorded coincident with the execution of this Stipulation, and to permit the Debtor to make the payments provided for herein.

8. The Indenture Trustee may, in its discretion, file a photostatic copy of this Stipulation as a financing statement in any jurisdiction in which any Post-Petition Collateral is or will be located, and in such event, the subject filing or recording officer is authorized to file or record such copy of this Stipulation.

Priority Claims

9. In addition to the grants of liens and security interests herein, in the event and to the extent that the use of the Cash Collateral results in a decrease in the value of the Indenture Trustee's and the Bondholders' interest in the Cash Collateral after the Petition Date such that the claim of the Indenture Trustee and the Bondholders fails to be fully secured notwithstanding the other adequate protection provided herein, the Indenture Trustee and the Bondholders shall have allowed administrative expense claims pursuant to Section 507(b) of the Bankruptcy Code, with priority in payment over all administrative expense claims and unsecured claims against the Debtor now existing or hereafter arising of any kind or nature, other than the administrative expenses of any superseding Chapter 7 Case (the "Pre-Petition Bondholder Superpriority Claims").

Cash Management

10. The Debtor is directed to continue the existing accounts collection arrangement adhered to pre-petition.

Reporting Requirements

11. During the term of this Stipulation, the Debtor shall provide the Indenture Trustee with (i) any and all financial information in the Debtor's possession or within its control, as the Indenture Trustee shall reasonably request and is entitled to request under the Indenture, and (ii) a monthly certificate of an authorized officer of the Debtor, in form and substance reasonably satisfactory to the Indenture Trustee, certifying that the Debtor is in full compliance with the provisions of this Stipulation.

12. Based upon the terms of this Stipulation and the Indenture Trustee's consent thereto, the payments, liens, superpriority claims and other protections provided in this Stipulation are fair and reasonable to protect the interests of the Indenture Trustee and the Bondholders as of the date of this Stipulation. Notwithstanding any other provision hereof, the grant of adequate protection to the Indenture Trustee and the Bondholders pursuant hereto is without prejudice to the right of the Debtor (subject to the provisions of paragraph 13(c)), the Indenture Trustee and the Bondholders to seek modification of the grant of adequate protection provided hereby so as to provide different or additional adequate protection (including, without limitation, to require the Debtor to comply with reasonable budgeting and reporting requirements), or to seek to terminate the Debtor's authority to use the Cash Collateral based upon the Debtor's inability to continue to provide adequate protection.

No Implied Authorization

13. Except for transactions in the ordinary course of its business or except as otherwise permitted in the Indenture or authorized by an order of this Court (after notice to the Indenture Trustee), the Debtor shall not sell, transfer, lease, encumber or otherwise dispose of any Pre-Petition Collateral or Post-Petition Collateral without the prior written consent of the Indenture Trustee, and no such consent shall ever be implied from any other action, inaction or acquiescence by the Indenture Trustee or any Bondholder. The Indenture Trustee expressly authorizes the Debtor to sell assets pursuant to Section 363(f) of the Bankruptcy Code free and clear of any liens, claims or encumbrances of the Indenture Trustee to the extent such sales are permitted by the Indenture and so long as the liens, claims or encumbrances of the Indenture Trustee shall attach to the proceeds of such sales with the same validity and priority as the liens, claims and encumbrances of the Indenture Trustee in the assets subject to such sales, until the disposition of such proceeds in accordance with the Indenture and applicable bankruptcy law.

Termination Events

14. As long as any portion of the Pre-Petition Indebtedness or other amounts that became due as provided in the Indenture and this Stipulation after the Petition Date remain unpaid, the Debtor shall not seek, and it shall constitute a "Termination Event" if, except with the express written consent of the Indenture Trustee, which consent shall not be implied:

(a) the Chapter 11 Case shall be dismissed or converted to a case under Chapter 7 of the Bankruptcy Code; or a Chapter 11 trustee shall be appointed in the Chapter 11 Case pursuant to an order for which the time to appeal has expired; or

(b) the Court or any other court of competent jurisdiction shall enter an order or orders for which the time to appeal has expired granting relief from the automatic stay applicable under Section 362 of the Bankruptcy Code to the holder

or holders of any security interests (other than the security interests of the Indenture Trustee or the Bondholders to the extent granted in this Stipulation) in any assets of the Debtor allowing such holder or holders to foreclose or otherwise realize upon any such security interests which assets have (individually or together with any previous orders granting such relief) an aggregate value in excess of \$100 million; or

(c) an order of the Court or any other court of competent jurisdiction shall be entered for which the time to appeal has expired amending, supplementing, staying, vacating, reversing, revoking, rescinding or otherwise modifying this Stipulation; provided that no Termination Event shall occur under this clause (c) to the extent that any such amendment, supplement or other modification is not adverse, in the reasonable judgment of the Indenture Trustee, to the rights and interests of the Bondholders under this Stipulation; or

(d) unless the Indenture Trustee otherwise expressly agrees in writing, an order of the Court or any other court of competent jurisdiction shall be entered granting any lien or security interest in any property of the Debtor in favor of any party other than the holder of a Senior Lien, the Indenture Trustee and the Bondholders pursuant to this Stipulation, or granting a claim to any party other than the holder of a Senior Lien, the Indenture Trustee and the Bondholders that is pari passu with or senior to the claims granted to the Indenture Trustee and the Bondholders pursuant to this Stipulation; or

(e) the Debtor shall file any pleading seeking, or otherwise consenting to, or shall support or acquiesce in writing in any other person's motion as to, any of the matters set forth in paragraphs (a) through (d) above, or the Court shall enter an order for which the time to appeal has expired granting any such motion filed by any other person; or

(f) this Stipulation shall cease to be in full force and effect or the Debtor's authority to use Cash Collateral hereunder shall have otherwise terminated; or

(g) the Debtor shall make any payment (including "adequate protection" payments) on or in respect of any pre-Petition Date indebtedness or obligations other than (i) the Pre-Petition Indebtedness or other amounts that become due pursuant to the Indenture or this Stipulation after the Petition Date, (ii) as permitted under this Stipulation or authorized by the Court, (iii) sales taxes, employee withholding taxes and similar "trust account" items which have been collected by the Debtor but not yet paid, (iv) as required under Section 365(b) (in connection with the assumption of unexpired leases or executory contracts) or other provisions of the Bankruptcy Code, and (v) Senior Liens, or

(h) the Debtor shall fail to comply with the terms of this Stipulation in any material respect; or

(i) this Court shall abstain from hearing the Chapter 11 Case, or the Debtor shall so move or support any motion brought by any third party seeking such relief; or

(j) the Debtor shall seek to, or shall support in writing (in any such case by way of, inter alia, any motion or other pleading filed with this Court or any other writing to another party-in-interest executed by or on behalf of the Debtor) any other person's motion to, disallow or subordinate in whole or in part any Bondholder's claim in respect of the Pre-Petition Indebtedness or any other amounts that become due pursuant to the Indenture or this Stipulation after the Petition Date or to challenge the validity, enforceability, perfection or priority of the liens in favor of the Indenture Trustee or any Bondholder (including, without limitation, the Liens securing the Pre-Petition Indebtedness or any other amounts that become due as provided in the Indenture or this Stipulation after the Petition Date owed to the Indenture Trustee or such Bondholder); or

(k) the filing of any motion to obtain credit from any party unless the liens and/or super-priority claims to be granted in connection therewith shall be junior to the liens and super-priority claims granted in this Stipulation.

Remedies

15. The Debtor's right to use the Cash Collateral shall automatically terminate on the fifth (5th) Court Day after receipt of written notice from the Indenture Trustee by the Debtor and its counsel, counsel to the Committee, and the Office of the United States Trustee for Region 17 of the occurrence of any Termination Events, unless prior to the expiration of such period the Court has entered an order authorizing the Debtor's continued use of Cash Collateral.

Survival

16. The provisions of this Stipulation and any actions taken pursuant hereto shall survive entry of any order (a) converting the Chapter 11 Case to a Chapter 7 case or (b) dismissing the Chapter 11 Case or pursuant to which this Court abstains from hearing the Chapter 11 Case, and the terms and provisions of this Stipulation and the Indenture Trustee's and the Bondholders' claims, liens and security interests granted pursuant to this Stipulation and the

Indenture shall continue in full force and effect notwithstanding the entry of any such order and the Indenture Trustee's and the Bondholders' liens, security interests and claims shall maintain their priority as provided by this Stipulation and the Indenture until all of the Pre-Petition Indebtedness (and any amounts that may become due and under the Indenture or this Stipulation after the Petition Date) is indefeasibly paid in full in cash or satisfied pursuant to Chapter 11 plan confirmed by the Court pursuant to Section 1129 of the Bankruptcy Code.

Limitation on Actions

17. Any party in interest (other than the Debtor, who expressly waived its rights to do so as provided herein), including any Committee, must commence any adversary proceeding or contested matter challenging the validity, enforceability or priority of the Pre-Petition Indebtedness (including any claim by such party that the Pre-Petition Indebtedness should be subordinated) or, to the extent they secure the Pre-Petition Indebtedness, the Indenture Trustee's and the Bondholders' liens on or security interests in the Pre-Petition Collateral no later than the date that is one hundred and twenty (120) days after the entry of an order of this Court approving this Stipulation, or, in the case of any trustee or other fiduciary hereafter appointed in the Chapter 11 Case or in any superseding Chapter 7 case as a legal representative of the Debtor or the Debtor's estate, or any committee hereafter appointed in the Chapter 11 Case pursuant to Bankruptcy Code Section 1102, the later of (a) ninety (90) days after the appointment of the applicable entity, or (b) the date that is one hundred and twenty (120) days after the entry of an order of this Court approving this Stipulation.

Preservation of Rights

18. Except as otherwise specifically provided herein, entry of this Stipulation shall be without prejudice to any and all rights, remedies, claims and causes of action which the Indenture Trustee, any Bondholder or the Debtor may have against the other party to this Stipulation or any third parties, and without prejudice to the right of the Indenture Trustee, any Bondholder or the Debtor to seek relief from the automatic stay in effect pursuant to Section 362 of the Bankruptcy Code, or any other relief under the Bankruptcy Code or applicable non-bankruptcy law, including, without limitation, the right of the Indenture Trustee or any Bondholder to (i) request additional adequate protection of their interests in the Pre-Petition Collateral (including, without limitation, the Cash Collateral) or relief from or modification of the automatic stay under Section 362 of the Bankruptcy Code, (ii) request conversion of the Chapter 11 Case to a case under Chapter 7 of the Bankruptcy Code and (iii) propose, subject to the provisions of Section 1121 of the Bankruptcy Code, a Chapter 11 plan.

19. Upon approval of this Stipulation by the Court, the provisions hereof shall be immediately binding upon and inure to the benefit of the Indenture Trustee, the Bondholders, the Debtor and their respective successors and assigns, including any trustee or other fiduciary hereafter appointed in the Chapter 11 Case or in any superseding Chapter 7 case as a legal representative of the Debtor or the Debtor's estate.

No Surcharge

20. For so long as the Debtor is authorized to use the Cash Collateral pursuant to this Stipulation the Debtor shall not be entitled to assert a claim under Section 506(c) of the Bankruptcy Code for any costs and expenses incurred in connection with the preservation,

protection, disposition or enhancement of the Pre-Petition Collateral or the Post-Petition Collateral.

Interest: Costs and Expenses

21. As additional adequate protection hereunder, the Indenture Trustee and the Bondholders shall be entitled to the payment of accrued and unpaid interest and sinking fund payments due and payable under the Indenture (the "Pre-Petition Indebtedness") on or prior to the Petition Date at the prevailing rate (with respect to interest payments) in effect under the Indenture. Additionally, interest on the Pre-Petition Indebtedness shall continue to accrue subsequent to the Petition Date at the prevailing rate under the Indenture and shall be payable on the terms set forth therein. Furthermore, any and all sinking fund payments that become due subsequent to the Petition Date shall be payable on the terms set forth in the Indenture.

22. As additional adequate protection hereunder, the Indenture Trustee shall, subject to the following procedures, be entitled to reimbursement by the Debtor, without the necessity of the filing of fee applications or obtaining the prior approval of the Court with respect thereto, of all fees provided from the Indenture and all reasonable costs and expenses incurred both before and after the Petition Date, in connection with (i) the Indenture Trustee's and the Bondholders' claims and liens and (ii) actions to preserve, protect and/or enforce the rights and remedies under, and to administer, the Indenture, including reasonable counsel fees and disbursements, filing fees, audit expenses, field examination expenses and reasonable fees and disbursements of accountants and/or financial advisors. The Indenture Trustee shall serve copies of its invoices and the invoices of any professionals retained by the Indenture Trustee upon the Debtor, its counsel, counsel to the Committee and the United States Trustee's Office. If any such

party believes that all or a portion of the fees reflected in any invoice are unreasonable (an "Objecting Party"), such Objecting Party shall provide written notice thereof to the Indenture Trustee or the applicable professional retained by the Indenture Trustee within 20 days of receipt of the invoice in question (with a copy to the Debtor and its counsel). Promptly after the expiration of such 20 day period, the Debtor shall pay any undisputed portion of such invoices, and retain the balance thereof pending resolution of any dispute with an Objecting Party, or, if any such dispute cannot be consensually resolved, upon approval of any disputed portion by the Court. The payment of any amounts to the Indenture Trustee or any professionals retained by the Indenture Trustee pursuant to this paragraph are expressly subject to disallowance by the Court, and the Indenture Trustee or such professional (as the case may be) shall promptly disgorge to the Debtor, upon entry of a final order, any amounts so disallowed.

Right to Inspect

23. The Indenture Trustee shall have the right, upon reasonable telephonic notice to the Debtor to conduct any inspections of the Debtor's property permitted in the Indenture. The Debtor shall timely file and serve upon the Indenture Trustee and its counsel all pleadings and other documents filed by the Debtor in the Chapter 11 Case, including the financial reports required by the United States Trustee's office, and shall continue to supply such reports as are required under the Indenture or as the Indenture Trustee is entitled to request under the Indenture .

24. Subject to appropriate confidentiality protections, the Debtor shall promptly provide the Indenture Trustee with copies of all consultants' reports, appraisals, business plans, and similar documents provided to the Committee.

No Release of Non-Debtors

25. Nothing contained in this Stipulation shall be deemed to terminate, modify or release any obligations of any non-debtor guarantor to the Indenture Trustee or any Bondholder with respect to the Pre-Petition Indebtedness or any amount that may become due under the Indenture or this Stipulation after the Petition Date.

No Third-Party Beneficiaries

26. No rights are intended to be created hereunder for the benefit of any third party or creditor or any direct or indirect incidental beneficiary except as specifically provided herein.

Effectiveness

27. This Stipulation shall take effect and be fully enforceable immediately upon approval thereof by the Court. Except as otherwise provided herein, the terms of this Stipulation shall be valid and binding upon the Debtor all creditors of the Debtor, any statutory committee appointed in the Chapter 11 Case and all other parties in interest from and after the approval of this Stipulation by this Court.

Waiver, Modification and Amendment

28. No waiver, modification, or amendment of any of the provisions hereof shall be effective unless it is set forth in writing and signed by the parties hereto.

Notice

29. The Debtor shall, within five (5) Court Days after entry on the docket of this Court of this Stipulation, provide notice of the approval notice thereof to all parties entitled to notice pursuant to the Local Bankruptcy Rules for the Northern District of California.

30. All notices, requests, demands, or other communications provided for or required by the Stipulation shall be in writing and shall be deemed to have been given when sent by facsimile or mail as follows:

Notice to the Debtor will be sent to:

Pacific Gas and Electric Company
77 Beale Street
San Francisco, CA 94120
Fax: (415) 973-4343
Attn: Mr. Kent Harvey, CFO

- and -

Howard, Rice, Nemerovski, Canady, Falk & Rabkin
Three Embarcadero Center, 7th Floor
San Francisco, CA 94111
Fax: (415) 217-5910
Attn: Gary M. Kaplan, Esq.

Notices to the Indenture Trustee will be sent to:

BNY Western Trust
700 South Flower
5th Floor
Los Angeles, CA 90017
Fax: (213) 630-6285
Attn: Mr. Todd Duncan

-and-

White & Case LLP
1155 Avenue of the Americas
New York, NY 10036
Fax: (212) 354-8113
Attn: Evan C. Hollander, Esq.

Notices to the Committee will be sent to:

Milbank, Tweed, Hadley & McCloy LLP
601 South Figueroa Street
Los Angeles, CA 90017
Fax: (213) 629-5063
Attn: Robert Moore, Esq.

Notices to the United States Trustee shall be sent to:

Office of the United States Trustee
250 Montgomery Street
Suite 1000
San Francisco, CA 94104
Fax: (415) 705-3379
Attn: Steven Johnson, Esq.

Dated: _____, 2001

The terms of this Stipulation are hereby
agreed and consented to by the
following:

The Debtor:

PACIFIC GAS AND ELECTRIC COMPANY, a
California corporation

By: _____
Name:
Title:

The Indenture Trustee:

BNY WESTERN TRUST COMPANY,
as Indenture Trustee

By: _____
Name:
Title: