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PACIFIC GAS AND ELECTRIC COMPANY

UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

In re PACIFIC GAS AND ELECTRIC COMPANY, a California Corporation, Debtor. Federal I.D. No. 94-0742640	No. 01 30923 DM Chapter 11 Case Date: May 16, 2001 Time: 9:30 a.m. Place: 235 Pine St., 22nd Floor San Francisco, California

DECLARATION OF STEVEN J. MCCARTY IN SUPPORT OF DEBTOR'S MOTION FOR AUTHORITY TO HONOR ITS OBLIGATIONS FOR PUBLIC PURPOSE PROGRAMS

I, Steven J. McCarty, declare as follows:

1. I am the Director of the Customer Energy Management Department of Pacific Gas and Electric Company ("Debtor" or "PG&E"), a position I have held since September 1, 1999. I am responsible for the implementation of Debtor's Energy Efficiency and Low-Income Energy Efficiency programs. I make this declaration in support of the Debtor's Memorandum of Points and Authorities in Support of Debtor's Emergency Motion for Authority to Honor Its Obligations for Public Purpose Programs. This Declaration is

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based on my personal knowledge of the Debtor's Public Purpose Programs. If called as a witness, I could and would testify competently to the facts stated herein.

The Public Purpose Programs

2. PG&E has been offering ratepayer-funded energy efficiency and low-income energy efficiency programs to its customers since at least 1976. (PG&E's low-income energy efficiency program hereinafter is referred to as the "Low-Income Energy Efficiency Program," PG&E's energy efficiency programs other than the Low Income Energy Efficiency Program hereinafter are referred to as the "regular Energy Efficiency Programs," and PG&E's Low-Income Energy Efficiency Program and regular Energy Efficiency Programs hereinafter are collectively referred to as the "Energy Efficiency Programs.") The Energy Efficiency Programs have always been designed to provide financial incentives to individuals, businesses, vendors, retailers, wholesale distributors or manufacturers to install, sell or manufacture more efficient energy-using equipment than customers would normally install in the absence of the program. The Energy Efficiency Programs also are intended to educate consumers about the benefits of purchasing energy efficient equipment and using energy-conserving practices. The objective has always been that if cost-effective energy efficiency products are used, less of our scarce energy resources will be depleted, to the benefit of both society and the purchaser of the energy-saving equipment. Today, with the high cost and looming shortages of energy, energy efficiency is more important and more cost-effective than ever.

3. The Low-Income Energy Efficiency Program installs energy efficiency measures in the homes of qualified low-income households, at no charge to the participant. The Low-Income Energy Efficiency Programs are authorized by Section 2790 of the Public Utilities Code. In addition to educating the participants about energy efficiency and saving energy, the Low-Income Energy Efficiency Program is also designed to reduce hardships and increase comfort in the participating low income homes.

4. Prior to 1997, the California Public Utilities Commission ("CPUC") authorized the Energy Efficiency Programs and the funding levels associated with the

programs. The portion of the funds received from customers' bills that were allocated to the Energy Efficiency Programs were debited to the balancing accounts established for the programs, and the costs of the programs were credited to the accounts. In this particular instances, the balancing accounts were used as an administrative convenience to assure PG&E and the CPUC that the funds authorized for the programs were spent only on the programs. Approximately every three years, PG&E would submit an accounting of the status of the balancing accounts, and propose whether any overcollections in the account at that time should be carried over to future Energy Efficiency Programs or refunded to PG&E's ratepayers. Also during the same period prior to 1997, PG&E conducted certain research and development activities (the "Research and Development Program") that were subject to the same balancing account and refund/carryover treatment.

5. In 1996, in order to ensure that the funds for Public Purpose Programs "are not commingled with other revenues," the California Legislature enacted Sections 381 and 382 of the Public Utilities Code that established a separate electric rate "component" or surcharge for what the Legislature termed "Public Purpose Programs," encompassing mandated Low-Income Energy Efficiency Programs, regular Energy Efficiency Programs, Research and Development Programs, and Renewable Energy Generation Programs. This Public Purpose Programs surcharge applied and continues to apply to all customers. Section 381(c) requires PG&E to "collect and spend" the funds in accordance with the statute. In a decision issued in February 1997, the CPUC ordered the funding levels for the Public Purpose Programs to be funded at the minimum levels set forth in Sections 381 and 382, which was consistent with funding in previous years. Decision 97-02-014, 70 CPUC 2d 774. The funding levels have not changed since that time.

6. Subsections 381(c)(1) and (3) specifically require PG&E to fund the regular *electric* Energy Efficiency Programs at an amount not less than $106 million per year, Research and Development Programs at $30 million per year, and Renewable Energy Generation Programs at $48 million per year. Section 381(c) requires these expenditures through the year 2001. The Legislature has extended these requirements for additional years,

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however. See Public Utilities Code Section 399.8, effective January 1, 2001. The $30 million for Research and Development Programs and $48 million for Renewable Energy Generation Programs are required to be collected by PG&E from ratepayers and transferred quarterly to the California Energy Commission (CEC), which is responsible for implementing the programs for those two areas. PG&E's electric Low-Income Energy Efficiency Program is currently funded at approximately $14 million per year.[1]

7. Natural gas regular Energy Efficiency Programs, Low-Income Energy Efficiency Programs, and Research and Development Programs, which have also been ongoing since at least 1976, also became subject to a separate surcharge in customer rates when Sections 890-900 of the Public Utilities Code became effective on January 1, 2001. For the *natural gas* programs, PG&E is required to surcharge and collect the specified Public Purpose Programs revenues and submit the amounts collected to the State Board of Equalization at the end of each quarter, which then distributes the money in accordance with allocations determined by the CPUC. For 2001, PG&E is collecting $17.1 million in natural gas revenues for regular Energy Efficiency Programs, $15 million for natural gas Low-Income Energy Efficiency Programs, and $1.9 million for gas Research and Development Programs, all of which are also consistent with funding in past years.

8. Since the California Energy Commission administers the Research and Development Program and the Renewable Energy Generation Program, it determines the budget and parameters for those programs. Each year, PG&E submits filings to the CPUC for approval of both electric and natural gas regular Energy Efficiency and Low-Income Energy Efficiency Programs and expenditures for the coming fiscal year. PG&E's 2001 Energy Efficiency Programs application, which requested approval of a total Energy Efficiency Programs budget of $153.5 million for 2001 (including both gas and electric

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[1]The California Alternative Rates for Energy Program, required by Section 739.1 of the Public Utilities Code, offers a 15% discount on energy costs for qualifying low-income customers. Since it takes the form of a discount, there is no explicit funding level for this program, other than the costs of administering the program. Instead, PG&E receives less revenue from the participating customers.

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energy efficiency and conservation programs, plus money collected in previous years but not yet spent), was approved by the CPUC on January 31, 2001. PG&E's 2001 Low-Income Energy Efficiency Programs were approved through the end of 2001 in a decision adopted in July 2000. All of the payments that PG&E seeks authority to make, therefore, will be made pursuant to Energy Efficiency Programs required by the Public Utilities Code and specifically analyzed and approved by the CPUC.

9. Under the legislation imposing the surcharge, PG&E has a statutory obligation to "collect and spend" the funds enumerated for the Public Purpose Programs, including the Energy Efficiency, Research and Development and Renewable Energy Generation Programs. As such, PG&E is required to pass through to the beneficiaries of the Public Purpose Programs the funds specifically collected and allocated for the programs. The funds for the programs have been consistently funded for years and specifically earmarked for the intended programs, with no discretion for PG&E to apply the funds to other purposes.

10. Section 381(a) of the Public Utilities Code also requires each relevant utility to identify a separate rate component for the Public Purpose Programs. Accordingly, since early 1998, after allowing an approximately one-year period to conform PG&E's billing/invoicing systems and software to reflect the mandates of the legislation imposing the nonbypassable surcharge for Public Purpose Programs, all monthly bills to PG&E's approximately 4.7 million customers have reflected the surcharge as a separate line item entitled "Public Purpose Programs" in the account detail portion of the bill, which surcharge is computed based on a fixed charge per kilowatt-hour consistent with the legislation.

11. PG&E seeks to honor its obligations pursuant to its various specific Energy Efficiency Programs, as well as the passthrough of the Research and Development and Renewable Energy Generation funds to the CEC. This includes various payments by PG&E in connection with the pre-petition period, i.e., paying an estimated $37.1 million in invoices to Energy Efficiency Programs vendors and contractors who supplied goods and services pre-petition, as well as paying the pre-petition portion of the passthrough to the CEC of the

Research and Development and Renewable Energy Generation funds. Because of the energy crisis that precipitated this bankruptcy filing, both PG&E and the energy efficiency community have been working particularly hard on getting as much of the Energy Efficiency Programs results in place prior to this summer's electric peaks. As a result, an extraordinary amount of work had been completed but not yet paid for and/or invoiced at the time of the bankruptcy filing.

The Programs

12. PG&E has implemented a number of programs that provide rebates to consumers, vendors, designers and others in an effort to encourage use of energy efficient products. In 2000, PG&E paid approximately $22 million in rebates and vouchers pursuant to these programs. PG&E estimates that it currently owes approximately $22.8 million to customers, retailers and others pursuant to rebate and voucher applications mailed pre-petition in 2001, and another approximately $3 million in contractual payments to vendors and customers who have already installed the energy-saving measures that form the basis for the obligations. PG&E has received invoices, which are now unpaid, of approximately $14.4 million for these programs, and estimates that another $11.5 million of work performed prior to the date of the bankruptcy filing, but not yet invoiced, remains to be invoiced to PG&E.

13. The following are some salient examples of these rebate/incentive programs:

A. Comfort Home. This program provides a financial incentive to residential builders and homebuyers for the installation of energy-efficient systems in new homes. Builders qualify for rebates by building specific features that save homeowners up to 25% in energy costs each month in comparison to standard new homes. Each home must feature high efficiency air conditioning, a tightly sealed duct system, and a natural gas range and dryer stub. Bonus payments are given for energy efficient window upgrades. PG&E also provides financial incentives to third party consulting firms who assist PG&E to market this program to residential builders.

B. ENERGY STAR™ Showcase Homes. This program provides financial incentives for builders who construct homes that comply with the U.S. Department of Energy's ENERGY STAR™[2] standards for new homes.

C. Savings By Design. This program provides financial incentives to designers who complete high-performance commercial building design, construction and retrofit. PG&E also offers design assistance and analysis through this program.

D. Residential Appliance Rebates. This rebate programs offers direct customer rebates for ENERGY STAR™ qualified clothes washers, dishwashers, room air conditions, portable evaporative coolers, and refrigerators.

E. 1-2-3 Cashback. This new residential rebate program was designed to make home improvements as easy as possible for customers. The program includes energy efficiency measures such as whole house fans, advanced whole house evaporative coolers, high performance dual-paned windows and ENERGY STAR™ programmable thermostats.

F. Residential Contractor Program. This program helps customers reduce the cost of installing energy-efficient products and contracting for energy-saving services in their homes. PG&E provides customers with vouchers that may be given to participating contractors in partial payment for such installations as high-performance windows, programmable thermostats, insulation, ENERGY STAR™ central air conditioners, water heaters, and furnaces and heat pumps. The vouchers may also be used for such services as duct testing and sealing. Eligible contractors then submit the vouchers to PG&E for reimbursement.

G. Standard Performance Contracts. This program provides financial incentives to large and small businesses and third parties that implement energy efficient measures that result in verified energy savings. The program pays up to $2.0 million per corporate parent and $500,000 per site for verified energy savings and demand reduction.

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[2] ENERGY STAR™ is a trademark designed by the Department of Energy to assist consumers in choosing energy-efficient appliances and energy systems. The trademark allows consumers to make environmentally sound choices without having to educate themselves regarding the technical elements contributing to efficiency.

Additional incentives are given to those measures that produce peak demand reductions.

H. Express Efficiency Programs. The Express Efficiency Program provides cash rebates to encourage customers to plan, finance and install new energy-saving equipment. Consumers, retailers and wholesale distributors are each eligible to receive rebates under this program of up to $25,000. Motor Express Efficiency provides rebates to approved distributors of energy efficient motors. Heating, Ventilating and Air Conditioning (HVAC) Express Efficiency provides rebates of $5 per ton to approved distributors of energy-efficient air conditioning package units.

I. Power Savings Partners. In the mid-1990's, the CPUC authorized PG&E to conduct bids for energy efficiency vendors and customers to bid on the provision of energy efficiency resources. The bids were conducted and contracts signed, which have now been largely completed. Payment under the contracts was for verified, delivered energy savings, which are paid over a multi-year period as the energy-saving measures are determined to remain in place and operating. Payments are due this year and each of the next several years under these contracts.

14. PG&E also incurs obligations to third-party administrators for its rebate programs. PG&E's Marketing Processing Center, for example, supports the rebate programs by performing such services as tracking rebate applications and payments, compiling a database for the programs, responding to requests for information, and verifying that applicants have implemented the energy saving measures. Last year, PG&E expended approximately $1.2 million for these third-party services. PG&E estimates that the total pre-petition obligation in 2001 to these administrators amounts to approximately $200,000.

15. In addition, PG&E outsources some of its rebate programs to vendors. Under this type of arrangement, a vendor will market and pay rebates for approved energy efficient products and then seek reimbursement from PG&E. Participating vendors sometimes receive additional incentive payments in exchange for these services. PG&E paid approximately $14 million to reimburse and compensate vendors for the rebate programs they offered on PG&E's behalf in 2000. Finally, PG&E estimates that it currently owes over

$2.8 million on invoices received from San Diego Gas & Electric Company and Southern California Edison Company pursuant to co-funding agreements supporting statewide energy efficiency programs.

Professional Consulting Contracts

16. PG&E has implemented programs that provide professional consulting services to customers who desire to improve energy efficiency. The following noteworthy examples of some of these programs:

A. Energy Design Resources. This program provides design professionals with a readily available, integrated package of design performance tools, techniques, information, and educational resources facilitating the design and construction of energy efficient new buildings.

B. Industrial and Agricultural New Construction Program. This program provides industry-specific energy benchmarking studies to high-growth industries such as refrigerated warehousing, biotech, high tech, and wastewater treatment. The studies allow customers to identify and design new systems and facilities using the least energy and drawing the least demand over their useful lives.

C. Energy Design Success. This program offers design assistance to industrial and agricultural customers to promote the installation of premium-efficiency new equipment and systems. The program also teaches customers to reduce energy costs and demand through the proper operation and maintenance of such equipment.

17. Including support for these specific programs, PG&E has issued approximately 115 contract work authorizations for professional services in the technical, marketing, advertising and policy evaluation areas. Additional activities undertaken pursuant to these contracts include studies, classes, evaluations and consultations on energy efficient lighting, heating, thermal systems, refrigeration, rotating machinery, building codes and building energy simulations and modeling.

18. PG&E paid $15 million pursuant to these and similar programs in fiscal year 2000. PG&E estimates that it owes approximately $4 million pursuant to these professional

consulting programs and contract work authorizations for services rendered pre-petition, including $900,000 in invoices already received, and $3.1 million in expected invoices for work performed prior to the filing of the bankruptcy petition.

The Low-Income Energy Efficiency Program

19. Section 382 of the Public Utilities Code requires PG&E to fund energy efficiency programs targeting low-income[3] customers. In compliance with this mandate, PG&E is continuing a program that it began in 1978, which offers free weatherization to approximately 50,000 low-income homes per year. Weatherization may include the installation of attic insulation, door weather-stripping, showerheads, caulking, water heater blankets, compact fluorescent lights, faucet aerators, refrigerators and portable evaporative coolers, as well as minor home repairs and other measures. PG&E reimburses the contractors who perform marketing, education and installations under this program. In 2000, PG&E paid $24.9 million for these programs, and still owes $1 million in outstanding invoices for education, marketing and measure installations, and expects to receive an additional $3.1 million in invoices for work performed prior to the filing of the bankruptcy petition.

20. A table summarizing PG&E's approximate outstanding obligations incurred pre-petition as part of the Energy Efficiency Programs is attached hereto as Exhibit A.

The Energy Efficiency Programs Balancing Accounts

21. After the institution of the surcharge pursuant to the 1996 Legislation, PG&E established three separate balancing accounts for Energy Efficiency Programs funds to replace prior balancing accounts: the Energy Efficiency Balancing Account ("EEBA"), the Public Purpose Program Efficiency Balancing Account ("PPPEBA"), and the Public Purpose Program Low-Income Balancing Account ("PPPLIBA"). The EEBA is used to fund pre-1998 Energy Efficiency Programs.[4] The PPPLIBA funds post-1998, Low-Income

[3] "Low-income" is defined by the Public Utilities Commission as 150% of the federal poverty guidelines for most families and 200% of the federal poverty level for senior citizens and the disabled.

[4] Since the EEBA is used to pay outstanding commitments from pre-1998 programs as payment obligations come (continued . . .)

Energy Efficiency Programs, and the PPPEBA funds all of the other post-1998 regular Energy Efficiency Programs.

22. The Energy Efficiency Programs portion of PG&E's overall revenues are booked to either the PPPEBA or PPPLIBA, as appropriate, where the funds (plus accumulating interest) are held until used to pay energy efficiency costs. These particular accounts are used solely for Energy Efficiency Programs funds, and to ensure that the funds collected for these programs are expended solely on these programs. All Energy Efficiency Programs expenses are paid through these accounts. If PG&E does not spend all the money collected each year for these programs, the money is rolled over with interest from year to year to fund future Energy Efficiency Programs initiatives. PG&E is not permitted to use the funds in the balancing accounts for any purposes other than the express purposes of the accounts. Any unspent funds remaining in the accounts at the end of each year are carried forward for spending in a future year.

23. Currently, PG&E holds approximately $260 million in its Energy Efficiency accounts to be held and used exclusively for Energy Efficiency Programs.

I declare under penalty of perjury under the laws of the United States of America and the State of California that the foregoing is true and correct. Executed this 24th day of April, 2001, at San Francisco, California.

Steven J. McCarty

STEVEN J. McCARTY

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(. . . continued)
due, no new money (other than interest on the balance in the account) is credited to this account. It is used only to pay old obligations.

EXHIBIT A

Outstanding Pre-Petition Energy Efficiency Obligations

	Received/ Unpaid Invoices ($ millions)	Expected Invoices for Pre-Bankruptcy Goods and Services ($ millions)	Total ($ millions)	Description ($ millions)
Rebates and Contracts	$14.4	$11.5	$25.9	Includes rebates to customers and vendors; payment to non-PG&E program implementers; re-imbursement for point-of-sale rebates; and payments to ESCOs and customers for savings delivered under contracts with PG&E.
Other	$2.8	$0.2	$3.0	Includes payments due SCE and SDG&E under co-funding agreements and the Marketing Processing Center.
Consulting Services	$0.9	$3.1	$4.0	Includes technical, marketing, advertising and evaluation support delivered by CWA master contracts.
Low Income	$1.1	$3.1	$4.2	Includes payments to CBOs and other PG&E contractors that install low-income measures.
Total	19.2	$17.9	$37.1	