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15 Branch, as Issuing and Administrative Agent

16 UNITED STATES BANKRUPTCY COURT
17 NORTHERN DISTRICT OF CALIFORNIA
18 SAN FRANCISCO DIVISION

19 In re

Case No. 01 30923 DM

20 PACIFIC GAS AND ELECTRIC
21 COMPANY,

Chapter 11 Case

22 Debtor.

**DECLARATION OF STEVEN A.
COHEN IN SUPPORT OF OBJECTION
OF DEUTSCHE BANK AG NEW YORK
BRANCH, AS ISSUING AND
ADMINISTRATIVE AGENT, TO
DEBTOR'S PROPOSED DISCLOSURE
STATEMENT**

Date: December 19, 2001
Time: 9:30 a.m.
Place: 235 Pine Street
San Francisco, California

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A001 Add: Kids Dgc Mail Center

Declaration of Steven A. Cohen in Support of Objection of Deutsche
Bank AG New York Branch, as Issuing and Administrative Agent,
to Debtor's Proposed Disclosure Statement

1 I, STEVEN A. COHEN, declare:

2 1. I am a Director of Deutsche Bank AG, New York Branch ("Deutsche
3 Bank") and I am the individual at Deutsche Bank primarily responsible for the Pacific Gas
4 and Electric Company ("PG&E" or the "Debtor") matter.

5 2. I make this declaration in support of the "Objection of Deutsche Bank
6 to Debtor's Proposed Disclosure Statement". Unless otherwise stated, the facts herein are
7 known to me of my own personal knowledge and if called upon to do so, I could and would
8 testify thereto.

9 3. Deutsche Bank is the issuer of irrevocable, direct pay transferable letter
10 of credit number 839-54377 dated September 16, 1997, a true and correct copy of which is
11 attached hereto as Exhibit A (the "DB Letter of Credit"). The DB Letter of Credit provides
12 credit and liquidity support for \$148,550,000 aggregate principal amount of California
13 Pollution Control Financing Authority Pollution Control Refunding Revenue Bonds (Pacific
14 Gas and Electric Company) 1997 Series B (the "DB Bonds").

15 4. The DB Bonds are one of 15 series of revenue bonds (collectively, the
16 "PC Bonds") issued by the California Pollution Financing Authority. Of the 15 series of
17 PC Bonds, eight (8) series, including the DB Bonds, were credit-enhanced revenue bonds
18 supported by letters of credit. Four (4) of these eight (8) series, again including the DB
19 Bonds, remain outstanding (collectively the "LC Backed PC Bonds").

20 5. The DB Letter of Credit was issued to Bankers Trust Company, as
21 indenture trustee (in such capacity, the "Bond Trustee"), for the account of PG&E, to
22 provide for the payment of the principal of and interest on the DB Bonds and to support the
23 payment of the purchase price of any DB Bonds tendered for purchase in accordance with
24 the terms of the related Indenture. In connection with the issuance of the DB Letter of
25 Credit, PG&E, Deutsche Bank, as issuing agent and as administrative agent, and four other
26 banks (the "Banks") entered into a Reimbursement Agreement (Series B), dated as of
27 September 1, 1997, as amended from time to time, a true and correct copy of which is
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1 attached hereto as Exhibit B (the "DB Reimbursement Agreement"). Section 2(a) of the DB
2 Reimbursement Agreement provides that PG&E is obligated to reimburse Deutsche Bank,
3 for the benefit of the Banks, for all amounts drawn under the DB Letter of Credit. Section
4 3(a) of the DB Reimbursement Agreement provides that Deutsche Bank may either consent
5 or not consent to any requested extension of the DB Letter of Credit.

6 6. Since April 6, 2001 (the "Petition Date"), Deutsche Bank, as issuing
7 agent, has honored drawings under the DB Letter of Credit on account of scheduled interest
8 payments on the DB Bonds. Following each such drawing, Deutsche Bank and the Banks
9 have allowed the interest portion of the DB Letter of Credit to automatically reinstate in
10 accordance with the terms thereof each month, which has resulted in automatic
11 reinstatements in May, June, July, August, September, October, and November 2001.
12 Since the Petition Date, Deutsche Bank and the Banks have paid approximately \$3,180,801
13 on account of draws under the DB Letter of Credit to fund scheduled interest payments.
14 PG&E, however, has not reimbursed any of these payments.

15 7. As a result of PG&E's failure to reimburse these amounts, Deutsche
16 Bank has the right upon the passage of time, the giving of notice or both, (i) to declare a
17 default under the DB Reimbursement Agreement, (ii) to notify the Bond Trustee of such
18 default, and (iii) to direct the Bond Trustee to call an "Event of Default" under the terms of
19 the related Indenture and, in accordance with the terms of such Indenture, to cause the Bond
20 Trustee to declare the DB Bonds immediately due and payable. In such event, the Bond
21 Trustee would, in accordance with the terms of the related Indenture, draw upon the DB
22 Letter of Credit and apply such drawn funds to the full payment and cancellation of the
23 outstanding DB Bonds, with the end result that this tax-preferred financing would no longer
24 be outstanding and the Debtor would be obligated to reimburse all amounts then due and
25 owing in accordance with the DB Reimbursement Agreement.

26 8. While during the first several months of this Chapter 11 case Deutsche
27 Bank refrained from taking the actions described in the preceding paragraph, I, on behalf of
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1 Deutsche Bank, at the same time indicated to PG&E that Deutsche Bank required some type
2 of comfort agreement with PG&E that would need to be approved by the Bankruptcy Court
3 if Deutsche Bank was to consider any further such restraint. Accordingly, Deutsche Bank,
4 and various other credit providers, entered into a stipulation with PG&E dated as of August
5 10, 2001, a true and correct copy of which is attached hereto as Exhibit C (the
6 "Stipulation"). The Stipulation was subsequently approved by the Court pursuant to an
7 order entered by the Court on September 7, 2001.

8 9. Paragraphs 2-4 of the Stipulation provide that the post-Petition Date
9 interest drawings under the Letters of Credit, as well as, to the extent provided for under the
10 applicable documents and subject to certain limitations contained in the Stipulation, the fees
11 and expenses of the Letter of Credit Issuing Banks (including Deutsche Bank), the other
12 banks party to the Stipulation and MBIA (including, to the extent incurred post-petition in
13 connection with this Chapter 11 case, the fees and expenses of unrelated third-party
14 professionals retained by the Letter of Credit Issuing Banks, the other banks party to the
15 Stipulation and MBIA) constitute allowed claims against the Debtor and its bankruptcy
16 estate.

17 10. Paragraph 6 of the Stipulation provides that the Letter of Credit Issuing
18 Banks (including Deutsche Bank) and MBIA have the continuing right, at any time there is
19 an "Event of Default" (as defined in the Reimbursement Agreements), to notify the Bond
20 Trustee of the occurrence or existence of such Event of Default and to direct the Bond
21 Trustee to declare an "Event of Default" under the related Indenture, notwithstanding their
22 failure to exercise such right at any time.

23 11. Paragraph 7 of the Stipulation provides that each Letter of Credit
24 Issuing Bank (including Deutsche Bank) has the continuing right, so long as it has not been
25 reimbursed in full for drawings it has honored under the Letter of Credit issued by it, to
26 notify the Bond Trustee of such failure to be reimbursed in full and to state that the amount
27 available to be drawn under the Letter of Credit to pay interest on the LC Backed PC Bonds
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1 has not been reinstated, notwithstanding the failure of such Letter of Credit Issuing Bank to
2 exercise such right at any time.

3 12. Paragraph 8 of the Stipulation provides that the Letter of Credit Issuing
4 Banks (including Deutsche Bank) and the other banks party to the Stipulation have the
5 continuing right to refuse to extend the terms of the Letters of Credit upon their respective
6 maturities.

7 13. I have reviewed the Disclosure Statement and the exhibits thereto in
8 order to make a determination as to whether Deutsche Bank was provided with sufficient
9 information to make an assessment as to the Plan. Based upon such review, Deutsche Bank
10 is unable to make such an assessment as necessary pieces of information are absent from the
11 Disclosure Statement and the related exhibits. In particular, the Disclosure Statement and
12 the exhibits thereto fail to include the following:

- 13 (i) sufficient detail regarding the allocation of specific assets and
14 liabilities to each of the successor entities;
- 15 (ii) *pro forma* historical financials on an entity by entity basis for
16 each of the successor entities;
- 17 (iii) a bridge analysis that identifies significant changes in projected
18 financial performance versus historical financial performance on
19 a specific revenue and expense basis and sets forth explanations
20 for such changes;
- 21 (iv) a reconciliation of sources and uses of cash on an entity by
22 entity basis for each of the successor entities; and
- 23 (v) sufficient detail regarding the future capital expenditures for
24 each of the successor entities, including whether such
25 expenditures are mandatory or discretionary.

26 14. In addition, neither the Disclosure Statement nor the exhibits thereto
27 include (i) any mention of the Stipulation or the effects thereof, (ii) sufficient disclosure of
28 the effect of a waiver by the Debtor of any of the conditions to confirmation and/or
consummation of the Plan on, among other things, the feasibility of the Plan and (iii)
sufficient detail regarding the mechanisms by which the Debtor intends to ensure that the
debt securities to be issued under the Plan will trade at par.

1 I declare under penalty of perjury under the laws of the United States that the
2 foregoing is true and correct. Executed this 26th day of November 2001, at New York,
3 New York.

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Exhibits to be provided upon request

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