

1 JAMES L. LOPES (No. 63678)
2 JANET A. NEXON (No. 104747)
3 BARBARA GORDON (No. 52424)
4 HOWARD, RICE, NEMEROVSKI, CANADY,
5 FALK & RABKIN
6 A Professional Corporation
7 Three Embarcadero Center, 7th Floor
8 San Francisco, California 94111-4065
9 Telephone: 415/434-1600
10 Facsimile: 415/217-5910

11 Attorneys for Debtor and Debtor in Possession
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

21 Case No. 01-30923 DM

22 Chapter 11 Case

23 Date: September 16, 2003

24 Time: 1:30 p.m.

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

27 DECLARATION OF HUDSON T. MARTIN IN SUPPORT OF MOTION OF PACIFIC
28 GAS AND ELECTRIC COMPANY FOR ORDER AUTHORIZING USE OF CASH
COLLATERAL TO MAINTAIN WORKERS' COMPENSATION COLLATERAL IN
COMPLIANCE WITH APPLICABLE LAW

DECLARATION OF HUDSON T. MARTIN ISO MOTION RE USE OF CASH COLLATERAL

50-225/1323

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HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

1 I, Hudson T. Martin, declare as follows:

2 1. I am the Director of the Insurance Department for PG&E Corporation,
3 parent company of Pacific Gas and Electric Company, debtor and debtor in possession
4 herein ("PG&E"), a position I have held since 1991. In such capacity, I am responsible for
5 providing insurance and related risk-management services to PG&E, and managing the
6 company's surety bond program. My department is responsible for filing applications to
7 establish PG&E's self-insured status with local, state and federal agencies.

8 2. This Declaration is based on my personal knowledge of PG&E's operations
9 and financial position. If called as a witness, I could and would testify competently to the
10 facts stated herein.

11 3. I make this declaration in support of PG&E's motion for Order Authorizing
12 Use of Cash Collateral to Maintain Workers' Compensation Collateral in Compliance with
13 Applicable Law (the "Motion").

14 4. PG&E, an employer of thousands of employees, has been granted a
15 Certificate of Consent to Self-Insure (the "Certificate") by the State of California
16 Department of Industrial Relations (the "State"). Pursuant to the Certificate, PG&E self-
17 insures its workers' compensation liabilities in California. Self-insurance is the lowest cost
18 and most efficient method of handling these obligations.

19 5. As a condition of self-insurance, PG&E must provide certain collateral with
20 the State to cover the future liabilities of the self-insured program in the event that PG&E
21 defaults on its obligations to pay benefits. The current collateral requirement is
22 \$347,686,313. PG&E currently has five surety bonds totaling \$365,000,002 in place to
23 satisfy this requirement. Collateral requirements are adjusted annually. Since the filing of
24 the Chapter 11 case, PG&E has maintained the required level of security by posting surety
25 bonds as collateral.

26 6. On July 16, 2003, PG&E received notification from the State (the "July 16,
27 2003 Letter") that the issuer of one of the surety bonds posted as collateral for such future
28 claims has failed to maintain an acceptable credit rating as required by the California Code

1 of Regulations. PG&E is required to replace that collateral within 60 days of the July 16,
2 2003 notification date or risk revocation of the Certificate. In order to provide such financial
3 assurances, PG&E will need to use cash or cash equivalents to replace the \$60 million surety
4 bond that no longer meets the State's financial strength requirements. PG&E seeks authority
5 from the court to use \$42,686,311 of cash collateral for this purpose as is necessary to
6 comply with applicable State regulations and with California Labor Code §3701.

7 7. Acceptable forms of collateral as defined in California Labor Code §3701
8 include cash, securities, surety bonds, or irrevocable letters of credit. While prior to the filing
9 of the Chapter 11 case, PG&E typically provided such financial assurances in the form of
10 surety bonds, it no longer has the ability to obtain such bonds on an unsecured basis.
11 Procedures of using securities for collateral are complex, costly and compliance with the 60
12 day deadline would be difficult. Letters of credit arrangements are costly and would require
13 time consuming procedures.

14 8. PG&E must provide adequate replacement security on or before September
15 15, 2003 and has determined that it will be required to post cash for the required security.
16 PG&E intends to use cash as it believes that cash represent the most cost-effective and
17 readily available method for providing the necessary financial assurances.

18 I declare under penalty of perjury under the laws of the United States of America
19 and the State of California that the foregoing is true and correct. Executed this 15 day of
20 August, 2003 at San Francisco, California.

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23 _____
24 HUDSON T. MARTIN

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