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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: October 9, 2003 Time: 1:30 p.m. Place: 235 Pine Street, 22nd Floor San Francisco, California Judge: Hon. Dennis Montali

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DEBTOR'S NOTICE OF MOTION AND MOTION FOR ORDER APPROVING DEBTOR'S EXECUTION AND PERFORMANCE UNDER THE AMENDMENT TO FIRST AMENDED AND RESTATED SUMMARY OF TERMS WITH RESPECT TO FORBEARANCE AND PROPOSED REVISED TREATMENT OF LETTER OF CREDIT BANK CLAIMS IN THE PLAN OF REORGANIZATION; SUPPORTING MEMORANDUM OF POINTS AND AUTHORITIES

[SUPPORTING DECLARATION OF MICHAEL J. DONNELLY FILED SEPARATELY]

BKRP01

NOTICE OF MOTION AND MOTION

PLEASE TAKE NOTICE that on October 9, 2003, at 1:30 p.m., or as soon thereafter as the matter may be heard, in the Courtroom of the Honorable Dennis Montali, located at 235 Pine Street, 22nd Floor, San Francisco, California, Pacific Gas and Electric Company, the debtor and debtor in possession in the above-captioned Chapter 11 case ("PG&E" or the "Debtor"), will and hereby does move the Court (the "Motion") for entry of an order approving PG&E's execution of, and performance under, an Amendment to First Amended and Restated Summary of Terms With Respect to Forbearance and Proposed Revised Treatment of Letter of Credit Bank Claims in the Plan of Reorganization (the "Amendment"), amending that certain Amended and Restated Summary of Terms With Respect to Forbearance and Proposed Revised Treatment of Letter of Credit Bank Claims in the Plan of Reorganization (the "Term Sheet") by and between PG&E, on the one hand, and various counterparties who have provided credit support for the outstanding bonds that are the subject of this Motion.

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This Motion is made pursuant to Sections 105(a) and 363 of the United States Bankruptcy Code (11 U.S.C. §§105(a) and 363) and Rule 9019(a) of the Federal Rules of Bankruptcy Procedure, and is based on the facts and law set forth herein (including the accompanying Memorandum of Points and Authorities beginning on the next page), the Declaration of Michael J. Donnelly filed concurrently herewith (hereinafter referred to as the "Donnelly Declaration" and cited as the "Donnelly Decl."), the record of this case and any evidence presented at or prior to the hearing on this Motion.

PLEASE TAKE FURTHER NOTICE that pursuant to Rule 9014-1(c)(2) of the Bankruptcy Local Rules for the Northern District of California, any written opposition to the Motion and the relief requested therein must be filed with the Bankruptcy Court and served upon appropriate parties (including counsel for PG&E, the Office of the United States Trustee and the Official Committee of Unsecured Creditors) at least five (5) days prior to the scheduled hearing date. If there is no timely objection to the requested relief, the Court may enter an order granting such relief without further hearing.

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MEMORANDUM OF POINTS AND AUTHORITIES

INTRODUCTION

Pacific Gas and Electric Company, the debtor and debtor in possession in the above-captioned Chapter 11 case (the "Debtor" or "PG&E"), submits this Memorandum of Points and Authorities In Support Of Debtor's Motion For Order Approving the Debtor's execution of, and performance under, an Amendment to First Amended and Restated Summary of Terms With Respect to Forbearance and Proposed Revised Treatment of Letter of Credit Bank Claims in the Plan of Reorganization (the "Motion"). By this Motion, PG&E seeks the Court's approval of PG&E's execution of, and performance under, an Amendment to First Amended and Restated Summary of Terms With Respect to Forbearance and Proposed Revised Treatment of Letter of Credit Bank Claims in the Plan of Reorganization (the "Amendment," a true and correct copy of which is attached as Exhibit A to the Donnelly Declaration), which PG&E has entered into with the various counterparties described below, subject to Bankruptcy Court approval, amending that certain First Amended and Restated Summary of Terms With Respect to Forbearance and Proposed Revised Treatment of Letter of Credit Bank Claims in the Plan of Reorganization (the "Term Sheet," a true and correct copy of which is attached as Exhibit B to the Donnelly Declaration) which PG&E has previously entered into with the same counterparties pursuant to the Debtor's Motion For Order Approving Debtor's Execution and Performance under the Amended and Restated Summary of Terms with Respect to Forbearance and Proposed Revised Treatment of Letter of Credit Bank Claims in the Plan of Reorganization dated May 28, 2002 (Docket No. 6738), which was granted by this Court's Order dated June 17, 2002 (Docket No. 7334) (hereinafter the "Prior Motion and Order"), in order to maximize the chance that PG&E can preserve for the bankruptcy estate and the anticipated reorganized Debtor the benefits of favorable tax-exempt bond financing.

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OVERVIEW

As described more fully below, PG&E is currently benefiting from certain below-

market-rate loans made to PG&E by the California Pollution Control Financing Authority with the proceeds from the sale of certain tax-exempt revenue bonds. The bonds are secured by certain letters of credit, and PG&E is obligated to repay the loans by reimbursing the Letter of Credit issuing banks for all draws made on the letters of credit that are used to pay the bonds.

PG&E derives substantial benefit, in the form of reduced borrowing costs, by maintaining the bonds and the resulting loans outstanding. However, pursuant to their terms, the bonds cannot remain outstanding unless they continue to be secured by letters of credit or certain other forms of credit enhancement.

Under the terms of the documents under which the bonds were issued, due to certain payment defaults by PG&E as debtor in possession, the letter of credit issuing banks had the right to cause the bonds to be redeemed through draws on their letters of credit. However, under the terms of the Prior Motion and Order, PG&E and the letter of credit issuing banks entered into an agreement, pursuant to which the letter of credit issuing banks agreed, among other things, to extend the terms of their respective letters of credit and to forbear from exercising such remedies under the terms of the bond documents for a limited period of time in exchange for the agreement by the Debtor to make certain payments, including the payment of certain increased letter of credit fees, and certain other concessions by the Debtor. This agreement was embodied in the Term Sheet and approved by the Prior Motion and Order.

Under the terms of the Term Sheet, among other things, the letter of credit issuing banks are, subject to certain conditions, required to maintain their letters of credit securing the bonds and forbear from exercising remedies that would result in the redemption of the bonds unless, among other things, a plan of reorganization which provides for the treatment of their claims in the manner set forth in the Original PG&E Plan (as hereinafter defined) and as later incorporated into the Current Plan (as hereinafter defined) or for alternative treatment which is acceptable to the letter of credit issuing banks, does not become effective on or before June 1, 2003 (the "Plan Condition"). The Debtor has requested, and the letter

of credit issuing banks have agreed, subject to certain terms and conditions, to amend the Term Sheet to, among other things, modify the Plan Condition.

Accordingly, PG&E desires to enter into a new consensual arrangement with the letter of credit issuing banks, as set forth in the Amendment, which would modify the agreement set forth in the Term Sheet, pursuant to which, among other things, in exchange for certain additional fees, the letter of credit issuing banks would agree to maintain their existing letters of credit for the benefit of PG&E for an extended period, extend the Plan Condition deadline from June 1, 2003 to May 18, 2004, allow the existing letters of credit to continue to be drawn to pay accruing interest on outstanding tax-exempt bonds, refrain from taking certain actions and agree to take certain other actions in cooperation with PG&E to keep the tax-exempt bonds (and the related below-market-rate loans to PG&E) outstanding.

For the reasons set forth above and as more fully described below, PG&E believes that the agreement set forth in the Amendment and in the Term Sheet as amended thereby is beneficial to the Debtor and its estate and, accordingly, should be approved by the Court.

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I. GENERAL BACKGROUND

PG&E is an investor-owned utility providing electric and gas services to millions of California residents and businesses. Beginning approximately in the summer of 2000, as a result of the partial deregulation of the power industry, PG&E was forced to pay dramatically increased wholesale prices for electricity, but was prevented from passing these costs on to retail customers, resulting in a staggering financial shortfall. In the face of the deterioration in PG&E's financial condition and with little progress having been made toward a resolution of the crisis, PG&E by early April 2001 determined that a Chapter 11 reorganization offered the best prospects for protecting the interests of its customers, creditors, employees and shareholders alike. Accordingly, PG&E filed a voluntary petition under Chapter 11 of the Bankruptcy Code on April 6, 2001. PG&E continues to manage and operate its business and property as a debtor in possession pursuant to Sections 1107 and 1108 of the United States Bankruptcy Code. 11 U.S.C. §§1107-1108.

On April 19, 2002, PG&E and its parent company, PG&E Corporation (the "Parent"), jointly propounded and filed a Plan of Reorganization Under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company (as modified by various modifications through May 22, 2003, the "Original PG&E Plan"). On May 17, 2002, the California Public Utilities Commission (the "Commission") filed a competing plan of reorganization for the Debtor; the Official Unsecured Creditor's Committee (the "Committee") joined with the Commission to file an amended plan of reorganization for the Debtor; and in December 5, 2002, the Commission and the Committee filed their Third Amended Plan of Reorganization under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company Dated December 5, 2002 (the "Competing Plan").

In accordance with an order of the Bankruptcy Court dated March 4, 2003, the Debtor entered into mandatory settlement discussions with the Commission that culminated in a tentative settlement agreement, subject to final approvals, between the Debtor and the Commission (the "Settlement Agreement"). This in turn resulted in the filing by the Debtor, its Parent and the Committee of a Plan of Reorganization under Chapter 11 of the Bankruptcy Code for Pacific Gas and Electric Company filed July 31, 2003 (as may be amended from time to time, the "Current Plan"), which incorporates the provisions of the Settlement Agreement. The confirmation hearings on the Original PG&E Plan and the Competing Plan have been stayed indefinitely, and the confirmation hearing on the Current Plan is scheduled to begin on November 10, 2003.[1]

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[1] The treatment of Class 4e under each of the Original Plan and the Current Plan reflect the treatment of the subject letter of credit issuing banks that is provided for in the Prior Motion and Order. If the present Motion is granted, the treatment of Class 4e in the Current Plan will be modified to reflect the Amendment to the Term Sheet.

II. THE SUBJECT BONDS AND THEIR CREDIT ENHANCEMENTS[2]

A. Background and Mechanics of Subject Bond Issuances.

Pursuant to the terms of various separate trust indentures (each, an "Indenture") each between the California Pollution Control Financing Authority, a public instrumentality and political subdivision of the State of California (the "Issuer") and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), as trustee (the "Bond Trustee"), and various corresponding loan agreements between the Issuer and PG&E, as of the commencement of this Chapter 11 case, the Issuer had issued and outstanding 15 series of its revenue bonds in aggregate principal amount of approximately $1.69 billion. As of the filing of this Motion, 11 series of such revenue bonds in the aggregate principal amount of approximately $1.24 billion remain outstanding. Of this $1.24 billion, the revenue bonds that are the subject of this Motion consist of four series of credit-enhanced revenue bonds in the aggregate principal amount of approximately $613,550,000, as set forth more specifically on Schedule 1 attached to the Amendment (collectively, the "Letter of Credit Backed PC Bonds").[3]

The Issuer loaned the proceeds from the sale of each series of Letter of Credit Backed PC Bonds (each a "Bond Loan" and collectively the "Bond Loans") to PG&E for the purpose of financing or refinancing the acquisition and/or construction of certain pollution control, sewage disposal and/or solid waste disposal facilities of PG&E located within the State of California. The Bond Loans were made pursuant to the terms of various loan agreements (each, a "Loan Agreement" and collectively the "Loan Agreements") between the Issuer and PG&E, pursuant to which PG&E agreed, among other things, to repay the

[2]The evidentiary support for the facts set forth in this memorandum of points and authorities are contained in the Donnelly Declaration filed herewith.

[3]The seven series of revenue bonds representing the difference between the $1.24 billion total revenue bonds outstanding and the $613,550,000 of Letter of Credit Backed PC Bonds are not covered by this Motion because they are not supported by letters of credit, and they therefore do not raise the issues leading to the Amendment, the Term Sheet and this Motion.

Bond Loans at the times and in the amounts necessary to enable the Issuer to make full and timely payment of the principal of, premium, if any, and interest on, each series of Letter of Credit Backed PC Bonds when due and to pay the purchase price of any Letter of Credit Backed PC Bonds tendered for purchase by PG&E in accordance with the terms of the applicable Indenture.

Pursuant to the terms of each of the Indentures, the Issuer has assigned to the Bond Trustee, for the benefit of the holders of the respective series of Letter of Credit Backed PC Bonds, certain of the Issuer's rights under the various Loan Agreements, including, but not limited to, the Issuer's right under the Loan Agreements to receive payments from PG&E of the principal of, and premium (if any) and interest on, the Bond Loans. In this manner, the Issuer has acted solely as a conduit, loaning the proceeds from the sale of the Letter of Credit Backed PC Bonds to PG&E and assigning its right to receive repayment of such loans to the Bond Trustee as security for the Letter of Credit Backed PC Bonds and to provide funds for the full payment of the respective Letter of Credit Backed PC Bonds.

The Letter of Credit Backed PC Bonds are special limited obligations of the Issuer payable exclusively out of the trust estates under each of the Indentures. None of the Letter of Credit Backed PC Bonds constitute a debt or liability, or a pledge of the faith, credit or taxing power of the Issuer, the State of California or any of its instrumentalities or political subdivisions. Rather, each series of Letter of Credit Backed PC Bonds is a limited obligation of the Issuer payable solely from the revenues derived by the Issuer from PG&E pursuant to the terms of the related Loan Agreement to the extent pledged by the Issuer to the Bond Trustee under the terms of the applicable Indenture and from certain other funds pledged and assigned as part of the trust estates under the applicable Indentures.

B. <u>Letter of Credit Backed PC Bonds</u>.

With respect to each series of Letter of Credit Backed PC Bonds, PG&E entered into a reimbursement agreement (each, a "Reimbursement Agreement") with a bank (each, a "Letter of Credit Issuing Bank") and certain banking or other financial institutions (each, a

"Bank"), pursuant to which the Letter of Credit Issuing Bank has issued its irrevocable letter of credit (each, a "Letter of Credit") to the Bond Trustee, for the account of PG&E, to provide for the payment of the principal of and interest on the related series of Letter of Credit Backed PC Bonds and to support the payment of the purchase price of any Letter of Credit Backed PC Bonds tendered for purchase in accordance with the terms of the applicable Indenture. Under the terms of each Reimbursement Agreement, PG&E is obligated to reimburse the Letter of Credit Issuing Bank for all amounts drawn on the related Letter of Credit.

Each Letter of Credit was issued in an initial stated amount (the "Stated Amount") equal to the sum of (i) the aggregate outstanding principal amount of the related series of Letter of Credit Backed PC Bonds (the "Principal Portion"), plus (ii) an amount equal to the amount of accrued interest on the outstanding principal amount of the related series of Letter of Credit Backed PC Bonds at an assumed maximum annual rate for a specified period of days as set forth in the Letter of Credit (the "Interest Portion"). The Stated Amount of each Letter of Credit is reduced by the amount of each drawing paid thereunder, subject to the provision that (a) with respect to amounts drawn for the payment of scheduled interest on the related Letter of Credit Backed PC Bonds, the Interest Portion of the Stated Amount is automatically reinstated unless the Letter of Credit Issuing Bank gives notice to the contrary to the Bond Trustee in accordance with the terms of the applicable Letter of Credit, and (b) with respect to amounts drawn to pay the purchase price of Letter of Credit Backed PC Bonds, the amount so drawn is subject to reinstatement upon the terms set forth in the applicable Letter of Credit.

Under the terms of each of the Indentures pursuant to which each series of Letter of Credit Backed PC Bonds were issued, each regularly scheduled payment of the principal of, or interest on, the Letter of Credit Backed PC Bonds is made from moneys drawn by the Bond Trustee under the related Letter of Credit. The obligation of PG&E to repay the loan under the Loan Agreement is deemed satisfied to the extent of any corresponding payment made by the Letter of Credit Issuing Bank under the terms of the Letter of Credit. With

respect to each such drawing, PG&E is then obligated under the applicable Reimbursement Agreement to reimburse the Letter of Credit Issuing Bank for the amount of such drawing. Only if the Letter of Credit Issuing Bank dishonors a drawing, or there is no Letter of Credit then in effect, is the Bond Trustee authorized under the terms of the Indenture to collect Bond Loan payments under the respective Loan Agreement and apply such funds to the payment of the principal of, or interest on, the related Letter of Credit Backed PC Bonds.

Accordingly, with respect to each series of Letter of Credit Backed PC Bonds for which the related Letter of Credit remains outstanding, all payments of the principal of, and interest on, the Letter of Credit Backed PC Bonds have been fully and timely made when due from draws made by the respective Bond Trustee on the respective Letter of Credit in accordance with the terms of such Letter of Credit and the related Indenture.

C. Tax-Exempt Status of Letter of Credit Backed PC Bonds.

All of the Letter of Credit Backed PC Bonds were sold in the capital markets on the basis that, assuming PG&E continued to comply with certain covenants contained in the Loan Agreements and certain of the documents, instruments and agreements executed in connection therewith (collectively, the "PC Bond Documents") and with certain exceptions, interest on such series of Letter of Credit Backed PC Bonds would not be includable in the gross income of the holders thereof for federal income tax purposes and that such interest is also exempt from California personal income taxes.

The tax-exempt status of the Letter of Credit Backed PC Bonds allowed such bonds to be issued at favorable interest rates, thus allowing PG&E to finance or refinance certain of its capital improvements and other qualified costs at rates substantially below comparable conventional taxable financing alternatives available to PG&E. Based on the tax-exempt status of the Letter of Credit Backed PC Bonds, their credit enhancement and their commensurate credit rating, the Letter of Credit Backed PC Bonds currently accrue interest at the average blended interest rate of only 0.83% per annum.[4] In the event that any

[4]This rate was calculated as of September 1, 2003, shortly before the filing of this Motion.

of the Letter of Credit Backed PC Bonds were to be redeemed in accordance with the terms of their respective Indentures, it may not be possible under current law to reissue such bonds on a tax-exempt basis. Accordingly, PG&E has made the determination that the continued existence of such favorable tax-exempt financing is a valuable asset of PG&E's bankruptcy estate, and that it is in the best interest of PG&E's estate to keep the Letter of Credit Backed PC Bonds outstanding in order to preserve the substantial benefits of such tax-exempt financing.

D. Post-Chapter 11 Filing Status of Letter of Credit Backed PC Bonds.

Since PG&E's Chapter 11 filing on April 6, 2001 (the "Petition Date"), all of the Letter of Credit Backed PC Bonds have remained outstanding, and all of the scheduled interest payments on the Letter of Credit Backed PC Bonds have been fully and timely paid, when due, through periodic draws by the Bond Trustee on the Letters of Credit provided by the Letter of Credit Issuing Banks. To date, following each such drawing, each of the Letter of Credit Issuing Banks has allowed the Interest Portion of its respective Letter of Credit to automatically reinstate in accordance with the terms thereof each month, which has resulted in automatic reinstatements each month since PG&E's Chapter 11 filing in April 2001.

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In accordance with the provisions of the Term Sheet and the Prior Motion and Order, the Debtor has reimbursed the Letter of Credit Issuing Banks, as required by the terms of the Reimbursement Agreements, for the amounts paid by the Letter of Credit Issuing Banks to the Bond Trustee pursuant to the monthly post-petition draws on the Letters of Credit made by the Bond Trustee for the payment of interest on the related Letter of Credit Backed PC Bonds.

Subject to the provisions of the Term Sheet, during any period that one or more "Events or Defaults" under its Reimbursement Agreement exist, each of the Letter of Credit Issuing Banks has the right upon the passage of time, the giving of notice or both, (i) to declare a default under its respective Reimbursement Agreement, (ii) to notify the Bond Trustee of such default, and (iii) to direct the Bond Trustee to call an Event of Default under the terms of the respective Indenture and, in accordance with the terms of the respective

Indenture, to cause the Bond Trustee to declare the respective series of Letter of Credit Backed PC Bonds immediately due and payable. In such event the Bond Trustee would, in accordance with the terms of the respective Indentures and the respective Letters of Credit, draw upon the respective Letters of Credit, and apply such drawn funds to the full payment and cancellation of the related outstanding Letter of Credit Backed PC Bonds, with the end result that this tax-preferred financing would no longer be outstanding.

Further, pursuant to the terms of each of the Indentures, with respect to each series of Letter of Credit Backed PC Bonds, subject to certain exceptions, unless 35 days prior to the expiration of the respective Letter of Credit, the Bond Trustee shall have received either (a) a renewal or extension of the existing Letter of Credit for a period of at least one year, or (b) a substitute letter of credit or other credit facility meeting the requirements of the respective Loan Agreement and Indenture, the Bond Trustee is required to call the series of Letter of Credit Backed PC Bonds for redemption and cancellation on the last business day which is at least five calendar days preceding the expiration date of the respective Letter of Credit. In such event the Bond Trustee would again, in accordance with the terms of the respective Indenture and the respective Letter of Credit, draw upon the respective Letter of Credit, and apply such drawn funds to the full payment and cancellation of the related series of outstanding Letter of Credit Backed PC Bonds, with the end result that this tax-preferred financing would no longer be outstanding.

However, pursuant to the Term Sheet and the Prior Motion and Order, each of the Letter of Credit Issuing Banks has agreed, among other things, to forbear from the exercise of such remedies, to maintain its Letter of Credit outstanding in the stated amounts set forth in the Term Sheet, and not provide the Bond Trustee with notice of the non-reinstatement of its Letter of Credit or of any default under its Reimbursement Agreement or take any other action which would result in the mandatory tender or redemption, either in whole or in part, of any of the outstanding Letter of Credit Backed PC Bonds without the prior written consent of the Debtor until the earlier of (i) the last interest payment date on the related series of Letter of Credit Backed PC Bonds immediately preceding the expiration date of

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such Letter of Credit, as such expiration date has been extended in accordance with the terms of the Term Sheet; or (ii) the occurrence of any "Termination Event," which is defined in the Term Sheet to include certain payment defaults by Debtor, the failure of a plan of reorganization of the Debtor which provides for the treatment of allowed Letter of Credit Bank Claims in the manner provided in the Term Sheet or for alternative treatment of such claims which is acceptable to the Letter of Credit Issuing Banks to become effective on or before June 1, 2003, the confirmation of a plan of reorganization of the Debtor which does not provide for such treatment of Letter of Credit Bank Claims, the occurrence of the "Effective Date" as defined in the Current Plan, or the dismissal of the Debtor's chapter 11 case or the conversion of the case to a case under chapter 7.

Further, pursuant to the Term Sheet and the Prior Motion and Order, each of the Letter of Credit Issuing Banks agreed to extend the term of its Letter of Credit to a date not earlier than the first business day subsequent to the one-year anniversary of its prior expiry date.

The forbearance by the Letter of Credit Issuing Banks, together with the extension of their Letters of Credit, have allowed the Debtor to keep the Letter of Credit Backed PC Bonds and the related Bond Loans outstanding, which has resulted and will continue to result in substantial interest cost savings for the Debtor and its estate. However, the Debtor's plan of reorganization did not become effective on or prior to June 1, 2003, which has resulted in the occurrence of a Termination Event as defined in the Term Sheet.

Further, even though each of the Letter of Credit Issuing Banks extended the term of its Letter of Credit for a period of not less than one year as provided in the Term Sheet, with respect to certain of the Letters of Credit such extended period has since expired. As an accommodation to the Debtor and in order to prevent the early redemption of the related series of Letter of Credit Backed PC Bonds, certain of the Letter of Credit Issuing Banks have voluntarily further extended the terms of their Letters of Credit pending the Court's approval of this Motion.

The Letter of Credit Banks have indicated to PG&E that, subject to certain

conditions, they would agree to extend the period during which they would be required to continue to forbear from exercising their remedies under their respective Reimbursement Agreements and the related Indentures in order to provide PG&E with more time to confirm and effectuate a plan of reorganization that would permit the reorganized Debtor to retain the benefits of the tax-exempt exempt financing offered by the continued existence of the Letter of Credit Backed PC Bonds. Consistent with such position of the Letter of Credit Issuing Banks, PG&E has engaged in discussions with the Letter of Credit Issuing Banks, culminating in the proposed Amendment which would amend the Term Sheet.

Because either (i) the exercise by the Letter of Credit Issuing Banks of their remedies under their respective Reimbursement Agreements and the related Indentures or (ii) the Letter of Credit Issuing Bank's refusal to voluntarily extend the term of their respective Letters of Credit, could result in the redemption of the Letter of Credit Backed PC Bonds, which in turn could result in the permanent loss to PG&E and its bankruptcy estate of the significant benefits of the tax-exempt financing afforded by the respective Letter of Credit Backed PC Bonds, PG&E has determined that it is in the best interests of the estate and its creditors for PG&E to amend the terms of the Term Sheet by entering into the Amendment and to seek this Court's approval of PG&E's execution of, and performance under, the terms of the Amendment and the Term Sheet as amended thereby.

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III. SUMMARY OF TERMS OF THE AMENDED TERM SHEET

As noted above, a true and correct copy of the Amendment is attached as Exhibit A to the Donnelly Declaration and a true and correct copy of the Term Sheet is attached as Exhibit B to the Donnelly Declaration. The principal terms of the Term Sheet and the changes to the Term Sheet provided in the Amendment are summarized and explained as follows:

A. Agreements by the Letter of Credit Issuing Banks.

Extension of Forbearance: Each of the Letter of Credit Issuing Banks has agreed to (i) maintain its Letter of Credit outstanding in its current stated amount, and (ii) not

provide the Bond Trustee with notice of any default under its Reimbursement Agreement or non-reinstatement of its Letter of Credit or take any other action which would result in the mandatory tender or redemption of any of the outstanding Letter of Credit Backed PC Bonds without the prior written consent of PG&E, until the earlier of: (x) the last interest payment date on the related series of Letter of Credit Backed PC Bonds immediately preceding the expiration date of such Letter of Credit, as such expiration date shall be extended in accordance with the terms of the Term Sheet, and (y) the occurrence of a "Termination Event" (as hereinafter defined).

For such purpose, a "Termination Event" shall have occurred, and the Letter of Credit Issuing Banks will no longer be obligated to continue to forbear from the exercise of their remedies under their respective Reimbursement Agreements and the related Indentures, if (a) PG&E fails to timely remit to the Letter of Credit Issuing Banks any of the payments set forth in the Term Sheet, (b) a plan of reorganization of PG&E which provides for the treatment of Allowed Letter of Credit Bank Claims (as defined in the Current Plan) in the manner described in the Term Sheet or for alternative treatment of Allowed Letter of Credit Bank Claims which is acceptable to the Letter of Credit Issuing Banks does not become effective on or before May 18, 2004, (c) a plan of reorganization is confirmed in PG&E's Chapter 11 case which does not provide for the treatment of Allowed Letter of Credit Bank Claims in the manner described in the Term Sheet or for alternative treatment of Allowed Letter of Credit Bank Claims which is acceptable to the Letter of Credit Issuing Banks, (d) the "Effective Date" as defined in the Current Plan (the "Effective Date") occurs, or (e) the Chapter 11 case of PG&E is dismissed or converted to a case under Chapter 7.

<u>Explanation of Extension of Forbearance</u>: At any time there is an "Event of Default" under the terms of a Reimbursement Agreement, the applicable Letter of Credit Issuing Bank has the continuing right, pursuant to the terms of its Reimbursement Agreement and related Indenture, to notify the Bond Trustee of the occurrence or existence of one or more "Events of Default" under its Reimbursement Agreements and to direct the Bond Trustee to declare an "Event of Default" under the related Indenture, notwithstanding

the Letter of Credit Issuing Bank's failure to exercise such right at any time. In addition, if a Letter of Credit Issuing Bank is not reimbursed in full for drawings properly honored by such Letter of Credit Issuing Bank under the Letter of Credit issued by it, such Letter of Credit Issuing Bank has, among other things, the continuing right (under both its Reimbursement Agreement and its Letter of Credit) to notify the Bond Trustee of such failure to be reimbursed in full and to state that the amount available to be drawn under the Letter of Credit to pay interest on such Letter of Credit Backed PC Bonds has not been reinstated.

Under the terms of the Term Sheet, each of the Letter of Credit Issuing Banks had agreed to forbear, for a limited period, from taking such action or taking any other action which would result in the mandatory tender or redemption of any of the outstanding Letter of Credit Backed PC Bonds without the prior written consent of PG&E. This concession by the Letter of Credit Issuing Banks allows PG&E to maintain the benefits of the tax-exempt financing during the forbearance period at a significant savings to the Debtor's bankruptcy estate.

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Prior to the Amendment, under the Term Sheet the Letter of Credit Issuing Banks were permitted to cease their forbearance if, among other things, a plan of reorganization which provides for the treatment of their claims either (i) in the manner set forth in the Term Sheet and as presently set forth in the Current Plan, or (ii) in an alternative manner which is acceptable to the Letter of Credit Issuing Banks, does not become effective on or before June 1, 2003 (the "Effective Date Deadline"). The terms of the Term Sheet, as amended by the Amendment, maintains all of the same forbearance provisions as the Term Sheet with the exception that, in accordance with the terms of the Amendment, the Letter of Credit Banks have agreed to modify the Effective Date Deadline as a condition to their continued forbearance to provide that a plan of reorganization which provides for the treatment of their claims in the manner set forth in the Term Sheet (as described below), or a plan of reorganization of the Debtor which provides for alternative treatment of their claims in a manner which is acceptable to the Letter of Credit Issuing Banks, becomes effective on or

before May 18, 2004. Accordingly, the provisions of the Term Sheet as amended by the Amendment will provide the Debtor with additional time to confirm and effectuate a plan of reorganization that would permit the reorganized Debtor to retain the benefits of the tax-exempt exempt financing offered by the continued existence of the Letter of Credit Backed PC Bonds.

Extension of Letter of Credit Expiration: Pursuant to the provisions of the Amendment, each of the Letter of Credit Issuing Banks has agreed that, unless it has already done so, it shall, on or before the date thirty days after the date that the Debtor's execution and performance under the Amendment has been approved or authorized by final order of the Bankruptcy Court, extended the term of its Letter of Credit to a date not earlier than the first business day subsequent to the one-year anniversary of the prior expiration date of such Letter of Credit.

Explanation of Extension of Letter of Credit Expiration: Unless each of the Letters of Credit is renewed or replaced in accordance with the terms of the Indentures at least 35 days prior to its expiration date, the Bond Trustee will be required to call the related series of Letter of Credit Backed PC Bonds for redemption and cancellation. The Letter of Credit Issuing Banks have the right to refuse to extend the terms of their Letters of Credit beyond their respective maturities.

Pursuant to the terms of the Term Sheet prior to the Amendment, each Letter of Credit Issuing Bank agreed to extend the term of its respective Letter of Credit for an additional term of not less than one year from its then existing expiration date.

The Term Sheet, as amended by the Amendment, provides that, unless it has already done so, each Letter of Credit Issuing Bank will extend the term of its respective Letter of Credit for an additional year beyond that required under the provisions of the original Term Sheet.

The agreement by the Letter of Credit Banks to extend the terms of their Letters of Credit for an additional year provides PG&E with necessary additional time in which to confirm and effectuate its plan of reorganization while both maintaining the benefits of the

tax-exempt financing provided by the Letter of Credit Backed PC Bonds for the Debtor's bankruptcy estate, and giving the Debtor the opportunity to secure the continuing benefits of such tax-exempt financing for the reorganized Debtor.

B. Agreements by the Debtor.

Reimbursement of Interest Draws: The Term Sheet provides that PG&E will currently reimburse the Letter of Credit Issuing Banks for all amounts drawn under their Letters of Credit for the payment of interest on the Letter of Credit Backed PC Bonds, which amounts will be paid by PG&E when due pursuant to the terms of the applicable Reimbursement Agreements.

Explanation of Reimbursement of Interest Draws. The Debtor has agreed pursuant to the terms of the Term Sheet to currently reimburse the Letter of Credit Issuing Banks for all amounts drawn under their Letters of Credit for the payment of interest on the Letter of Credit Backed PC Bonds, which amounts will continue to be paid by PG&E when due pursuant to the terms of the applicable Reimbursement Agreements. The Amendment does not change any of the Debtor's obligations with respect to the timing or payment of such amounts from those it agreed to in the Term Sheet as approved by the Prior Motion and Order.

Additional Fees: The Term Sheet provides that PG&E is required to pay to each of the Letter of Credit Issuing Banks quarterly, in arrears, the Letter of Credit fee as set forth in the respective Reimbursement Agreement (the "Original Letter of Credit Fee"), together with an amount equal to the positive difference, if any, of an amount per annum equal to three (3%) percent of the Stated Amount of the Letter of Credit, less the Original Letter of Credit Fee, which total fee is to be payable on the same dates as are set forth for payment of Letter of Credit fees in the applicable Reimbursement Agreement through the Effective Date.

The Term Sheet as amended by the Amendment also provides that within 10 days after the Debtor's execution and performance under the Amendment has been approved or authorized by final order of this Court (the "Amendment Effective Date"), PG&E is required

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to pay to each of the Letter of Credit Issuing Banks with respect to its Letter of Credit, an additional fee, in an amount equal to one-half (0.50%) percent of the Stated Amount of the Letter of Credit Issuing Bank's Letter of Credit.

<u>Explanation of Additional Fees</u>: As set forth in the Current Plan and the Term Sheet, the Letter of Credit Issuing Banks and the Banks will be paid their outstanding Allowed Letter of Credit Bank Claims, together with pre- and post-petition interest thereon, in full on the terms set forth therein. The Current Plan and Term Sheet also provide for the payment of certain increased fees to the Letter of Credit Issuing Banks as consideration for their agreements to forbear and extend the maturities of the Letters of Credit.

Pursuant to the provisions of the Term Sheet as approved by the Prior Motion and Order, PG&E will continue to make current payments of the letter of credit fees due under the terms of the respective Reimbursement Agreements, plus pay an additional fee in the amount necessary to bring the total annual fee payable to each Letter of Credit Issuing Bank up to an aggregate amount per annum equal to three (3%) percent of the Stated Amount of each Letter of Credit for the period that the respective Letter of Credit remains outstanding in the Stated Amount through the Effective Date.

The increased total letter of credit fees continue to be calculated, and will either accrue or be payable, in the same manner as letter of credit fees are currently provided for in each of the existing Reimbursement Agreements.

In addition to the increased letter of credit fees provided for in the original Term Sheet and approved by Prior Motion and Order, the Term Sheet as amended by the Amendment provides that PG&E is also required to pay to each of the Letter of Credit Issuing Banks with respect to its Letter of Credit, an additional fee (the "Forbearance Extension Fee"), in an amount equal to one-half (0.50%) percent of the Stated Amount of the Letter of Credit Issuing Bank's Letter of Credit which additional fee is payable within 10 days after the Amendment Effective Date.

The total fees payable by PG&E under the Term Sheet, as amended by the Amendment, are similar to the fees that PG&E has already agreed to pay under the terms of

the Term Sheet as approved by the Prior Motion and Order with the exception that PG&E will also be required to pay each of the Letter of Credit Issuing Banks its respective Forbearance Extension Fee. The total fees payable by PG&E under the terms of the Term Sheet as amended by the Amendment are, in the opinion of PG&E, fair compensation to the Letter of Credit Issuing Banks for their agreements under the provisions of the Term Sheet as amended by the Amendment to, among other things, extend the terms of their respective Letters of Credit and to continue to forbear from the exercise of remedies under their respective Reimbursement Agreements for an extended period as described above. Even after the payment of the increased fees set forth in the Term Sheet as amended by the Amendment, PG&E will continue to realize substantial interest cost savings over the cost of conventional taxable financing by maintaining the benefits of the outstanding tax-exempt financing provided by the Letter of Credit Backed PC Bonds, which cost savings more than offset the cost of the fees. Thus, under the current circumstances, the Debtor believes that the increased total fees payable to the Letter of Credit Issuing Banks are a reasonable and necessary component of any agreement to extend the forbearance period.

<u>Professional Fees</u>: The Term Sheet provides that PG&E will pay the reasonable fees and expenses of unrelated third party professionals retained by the Letter of Credit Issuing Banks ("Professional Fees"), to the extent incurred subsequent to April 6, 2001 in connection with the Chapter 11 case of PG&E no later than 30 days subsequent to each date a reimbursement request therefor (with appropriate backup) is made in writing by the Letter of Credit Issuing Bank to PG&E. These provisions are not changed by the Amendment.

<u>Explanation of Professional Fees</u>: The Amendment does not change any of the Debtor's obligations with respect to the timing and payment of such professional fees from those it agreed to in the Term Sheet as approved by the Prior Motion and Order.

<u>Purchase in Lieu of Redemption</u>: The Term Sheet provides that, if no Termination Event shall have occurred and remain uncured prior to the Effective Date, then upon written request of PG&E, each Letter of Credit Issuing Bank shall cause the related series of Letter of Credit Backed PC Bonds to be tendered for purchase through a draw upon

the respective Letter of Credit and instruct the respective Bond Trustee to either register the purchased Letter of Credit Backed PC Bonds in the name of the Letter of Credit Issuing Bank or in the name of PG&E subject to a first lien security interest in favor of the respective Letter of Credit Issuing Bank to additionally secure the obligations of PG&E under the related Reimbursement Agreement.

The Term Sheet further provides that upon written request of PG&E or the Letter of Credit Issuing Banks delivered by either party to the other on or after the date the Bankruptcy Court approves this Motion, PG&E and each of the Letter of Credit Issuing Banks shall take any action as shall be reasonably necessary to amend the Loan Agreement and/or Indenture pursuant to which each series of Letter of Credit Backed PC Bonds were issued to add the right of the Letter of Credit Issuing Bank or PG&E to purchase any Letter of Credit Backed PC Bonds in lieu of redemption and to cause such purchased Letter of Credit Backed PC Bonds to be registered in the name of the respective Letter of Credit Issuing Bank or in the name of PG&E subject to a first lien security interest in favor of the respective Letter of Credit Issuing Bank to secure the related reimbursement obligation of PG&E; provided that, if certain Termination Events occur, PG&E will not, without the prior written consent of the respective Letter of Credit Issuing Bank, have the right to convert a mandatory redemption of Letter of Credit Backed PC Bonds into a purchase in lieu of redemption in accordance with the proposed amended Loan Agreement or Indenture.

Finally, the Term Sheet as amended by the Amendment provides that in the event that a plan of reorganization which provides for the treatment of Allowed Letter of Credit Bank Claims in the manner described in the Term Sheet or for alternative treatment of Allowed Letter of Credit Bank Claims which is acceptable to the Letter of Credit Issuing Banks does not become effective on or before May 18, 2004, then each Letter of Credit Issuing Bank shall have the right, but not the obligation, to cause the related series of Letter of Credit Backed PC Bonds to be tendered for purchase through a draw upon the respective Letter of Credit and to instruct the respective Bond Trustee to either register the purchased Letter of Credit Backed PC Bonds in the name of the Letter of Credit Issuing Bank or, at the

direction of the Letter of Credit Issuing Bank, in the name of PG&E subject to a first lien security interest in favor of the respective Letter of Credit Issuing Bank to additionally secure the obligations of PG&E under the related Reimbursement Agreement, and shall not thereafter take any action which would cause the related series of Letter of Credit Backed PC Bonds to be called for redemption unless certain Termination Events occur.

<u>Explanation of Purchase in Lieu of Redemption</u>: For United States federal income tax purposes, Letter of Credit Backed PC Bonds which have been purchased, rather than redeemed or cancelled, remain outstanding. However, the cooperation of the Letter of Credit Issuing Banks and the Banks is necessary in order to provide a mechanism by which the Letter of Credit Backed PC Bonds can be purchased. Thus, pursuant to the terms of the Term Sheet, PG&E and the Letter of Credit Issuing Banks have agreed to cooperate in a mutual attempt to amend the related bond documents to permit the Letter of Credit Issuing Banks to purchase the Letter of Credit Backed PC Bonds under certain circumstances in which the Letter of Credit Backed PC Bonds would otherwise be subject to redemption and cancellation. Such amendments to the respective Loan Agreements and Indentures would not be adverse to the interests of the holders of Letter of Credit Backed PC Bonds and would enhance PG&E's ability to maintain the benefits of the tax-exempt financing provided by the Letter of Credit Backed PC Bonds by facilitating the orderly purchase of outstanding Letter of Credit Backed PC Bonds in certain circumstances.

The amendments to the bond documents proposed in the Term Sheet as amended by the Amendment would also grant the Letter of Credit Issuing Banks the right, but not the obligation, to cause a purchase of Letter of Credit Backed PC Bonds on or after May 18, 2004, if a plan of reorganization which provides for the treatment of Allowed Letter of Credit Bank Claims in the manner described in the Term Sheet or for alternative treatment of Allowed Letter of Credit Bank Claims which is acceptable to the Letter of Credit Issuing Banks does not become effective on or before such date. This provision is again similar to the provision the Debtor agreed to in the original Term Sheet as approved by the Prior Motion and Order except that, pursuant to the terms of the Amendment, the date before

which the Letter of Credit Issuing Banks are permitted to exercise the purchase right is extended from June 1, 2003 to May 18, 2004, thus again granting the Debtor additional time to confirm and consummate its plan of reorganization while maintaining the Letter of Credit Backed PC Bonds outstanding at the tax-exempt rate.

Additional Default Right: Pursuant to the terms of the Term Sheet as amended by the Amendment, PG&E has agreed that, with respect to each of the Letter of Credit Issuing Banks and their respective Letters of Credit, provided that (i) the Letter of Credit Issuing Bank shall at all times be in full compliance with the terms of the Term Sheet, their respective Letter of Credit and Reimbursement Agreement, (ii) the respective Letter of Credit is outstanding in its original stated amount, (iii) the respective Letter of Credit Issuing Bank has not provided the Trustee with notice of any default under its Reimbursement Agreement or non-reinstatement of its Letter of Credit, and (iv) no action has been taken that has resulted, or would result, in the mandatory tender, redemption or purchase in lieu of redemption, either in whole or in part, of any of the related Letter of Credit Backed PC Bonds, then on any date on or after May 18, 2004, the respective Letter of Credit Issuing Bank shall have the right, but not the obligation, to give notice to the Bond Trustee of the occurrence of an event of default under the terms of the Reimbursement Agreement and to direct the Bond Trustee to declare an event of default under the respective Indenture as a result thereof to the extent provided under the terms of the respective bond documents.

Explanation of Additional Default Right: Pursuant to the terms of the Amendment, each of the Letter of Credit Issuing Banks have agreed to extend the term of their respective Letters of Credit for at least one year from their prior expiration date as explained above. However, because of differences in the original expiration dates of each of the Letters of Credit, each of the Letters of Credit will continue to expire on a different date. After giving effect to the extensions of the terms of each of the Letters of Credit as provided in the Amendment, the first of the Letters of Credit to expire will be the Letter of Credit Issued by Bank of America, N.A. which will expire on May 23, 2004.

As explained above, unless each of the Letters of Credit is renewed or replaced in

accordance with the terms of the Indentures at least 35 days prior to its expiration date, the Bond Trustee is required to call the related series of Letter of Credit Backed PC Bonds for redemption and cancellation on the last business day which is not less than five days preceding the expiration date of such Letter of Credit. Accordingly, unless Bank of America, N.A. voluntarily agrees to further extend the term of its Letter of Credit, the related series of Letter of Credit Backed PC Bonds may be subject to redemption on May 18, 2004 (the date five days prior to the expiration date of its Letter of Credit).

In order to give each of the other three Letter of Credit Issuing Banks the same economic right that Bank of America, N.A. has to cause a drawing on its Letter of Credit and the purchase or redemption of the related series of Letter of Credit Backed PC Bonds on or after May 18, 2004, the Amendment and the Term Sheet as amended thereby provides that, with respect to each of the Letter of Credit Issuing Banks and their respective Letters of Credit, subject to certain conditions, on any date on or after May 18, 2004, the respective Letter of Credit Issuing Bank shall have the right, but not the obligation, to give notice to the Bond Trustee of the occurrence of an event of default under the terms of the Reimbursement Agreement and to direct the Bond Trustee to declare an event of default under the respective Indenture as a result thereof to the extent provided under the terms of the respective bond documents.

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C. <u>Treatment of Allowed Letter of Credit Bank Claims.</u>

The Term Sheet provides that the plan of reorganization propounded by PG&E will provide for the treatment of Allowed Letter of Credit Bank Claims (as defined in the Current Plan) in substantially the manner provided in the Original PG&E Plan. The same treatment of Allowed Letter of Credit Bank Claims has been incorporated into the Current Plan. The Amendment does not change any of the Debtor's obligations with respect to the proposed treatment of Letter of Credit Bank Claims from those provided in the Term Sheet as approved by the Prior Motion and Order.

The proposed treatment of the Allowed Letter of Credit Bank Claims as set forth in the Original PG&E Plan and incorporated into the Current Plan, with the refinements set

forth in the Term Sheet as modified by the Amendment, are intended to, among other things, allow PG&E and the Reorganized Debtor the ability to maintain the benefits of the tax-exempt financing provided by the Letter of Credit Backed PC Bonds both through and after the Effective Date.

IV. THE COURT SHOULD APPROVE THE DEBTOR'S EXECUTION OF AND PERFORMANCE UNDER THE AMENDMENT AND THE TERM SHEET AS AMENDED THEREBY BECAUSE IT IS IN THE BEST INTEREST OF THE DEBTOR AND ITS ESTATE

The Court should approve PG&E's execution of and performance under the Amendment and the Term Sheet as amended thereby in order to provide PG&E with the additional time it may need to confirm and effectuate its plan of reorganization while both maintaining the benefits of the tax-exempt financing provided by the Letter of Credit Backed PC Bonds for the Debtor's bankruptcy estate, and giving the Debtor the opportunity to secure the continuing benefits of such tax-exempt financing for the reorganized Debtor.

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The tax-exempt financing provided by the Letter of Credit Backed PC Bonds provides a substantial interest cost savings to PG&E (and will provide such savings to the Reorganized Debtor) over the cost of alternative conventional taxable financing. As such, the tax-exempt bond financing is an asset of the bankruptcy estate that, in the opinion of PG&E, is best preserved through the transactions contemplated in the Amendment and the Term Sheet as amended thereby.

PG&E believes that the benefits of the extended forbearance offered by the Letter of Credit Issuing Banks and the other agreements by the Letter of Credit Issuing Banks set forth in the Amendment and the Term Sheet as amended thereby, outweigh any concessions made by PG&E in the Amendment and the Term Sheet as amended thereby.

Section 363(b) of the Bankruptcy Code authorizes a debtor in possession, after notice and a hearing, to use, sell or lease property of the estate other than in the ordinary course of business. To the extent the proposed Amendment and the Term Sheet as amended thereby encompasses the use of estate property to resolve outstanding issues with the Letter of Credit Issuing Banks and the Banks for the benefit of the estate, it is within the ambit of

Section 363(b). Further, Rule 9019(a) of the Bankruptcy Rules more specifically sets forth the procedure for a settlement or a compromise of controversy. Pursuant to Rule 9019(a), a bankruptcy court may approve, after notice and a hearing, a compromise or settlement agreement entered into by a representative of a debtor's estate and a party in interest. The standard for approval of a compromise is whether the proposed settlement is "fair and equitable" and "in the best interests of the estate". See Protective Comm. for Indep. Stockholders of TNT Trailer Ferry Inc. v. Anderson, 390 U.S. 414, 424, reh'g denied, 391 U.S. 909 (1968); Official Comm. of Unsecured Creditors v. Cajun Elec. Power Coop., Inc. (In re Cajun Elec. Power Coop., Inc.), 119 F. 3d 349, 355 (5th Cir. 1997).

In making such a determination, the court "need not conduct its own investigation concerning the reasonableness of the settlement" and may consider the informed judgment of the estate's representative that the settlement is fair and equitable. In re Purofied Down Prods. Corp., 150 B.R. 519, 522 (S.D.N.Y. 1993). Furthermore, the court does not "have to be convinced that the settlement is the best possible compromise or that the parties have maximized their recovery." Nellis v. Shugrue, 165 B.R. 115, 123 (S.D.N.Y. 1994). Instead, the court need only "'canvass the issues and see whether the settlement 'falls below the lowest point in the range of reasonableness.'" In re Drexel Burnham Lambert Group, Inc., 134 B.R. 493, 497 (Bankr. S.D.N.Y. 1991) (citation omitted).

For the reasons set forth above, PG&E believes the compromise reached with the Letter of Credit Issuing Bank and the Banks, as set forth in the Amendment and the Term Sheet as amended thereby, is fair and reasonable and is in the best interests of PG&E's estate. As such, PG&E believes approval of the Amendment and the Term Sheet as amended thereby is appropriate under Rule 9019.

Finally, as yet another basis for the relief requested by this Motion, Section 105(a) of the Bankruptcy Code authorizes this Court to "issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title." The purpose of Section 105 is "to assure the bankruptcy courts power to take whatever action is appropriate or necessary in aid of the exercise of their jurisdiction." 2 Lawrence P. King,

Collier on Bankruptcy ¶105.01, at 105-6 (15th ed. rev. 2000). PG&E believes that the principal creditors of the estate and other parties in interest noticed on this Motion will support the Motion because it is plainly in the best interests of the estate, and that this Court's entry of an order granting the Motion will help facilitate the efficient administration of the estate and, as the ultimate goal of a successful Chapter 11 case, a confirmable plan of reorganization. On the present facts, the Court's approval of the Motion is consistent with both the letter and spirit of the Bankruptcy Code, in general, and Section 105(a), in particular.

CONCLUSION

For all of the foregoing reasons, PG&E respectfully requests that this Court make and enter its order granting the Motion, thereby approving PG&E's execution of and performance under the terms of the Amendment and the Term Sheet as amended thereby that PG&E has entered into with the Letter of Credit Issuing Banks.

DATED: September 17, 2003

Respectfully,

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