

58-275/323

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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,

Case No. 01-30923 DM
Chapter 11 Case
Date: November 21, 2003
Time: 1:30 p.m.
Place: 235 Pine Street, 22nd Floor
San Francisco, California
Judge: Hon. Dennis Montali

DECLARATION OF MICHAEL J. DONNELLY IN SUPPORT OF PG&E'S
APPLICATION FOR AUTHORITY TO INCUR PLAN IMPLEMENTATION
EXPENSES IN CONNECTION WITH CERTAIN FINANCINGS

BKRPDI

1 I, Michael J. Donnelly, declare as follows:

2 1. I am the Assistant Treasurer of Pacific Gas and Electric Company, a
3 position that I have held since September of 2000. Except as otherwise indicated, I make
4 this declaration based upon my personal knowledge concerning the matters stated herein. If
5 called as a witness, I could and would testify competently to the facts stated herein.

6 2. I make this declaration in support of PG&E's Motion For Authority To
7 Incur Plan Implementation Expenses In Connection With Certain Financings (the "Motion").

8 3. On July 31, 2003, PG&E, PG&E Corporation and the Official Committee
9 of Unsecured Creditors filed a Plan of Reorganization Under Chapter 11 of the Bankruptcy
10 Code for Pacific Gas and Electric Company Dated July 31, 2003 (the "Plan"), which
11 provides for payment in full of all allowed claims and enables the Debtor to emerge from
12 Chapter 11 with a financially sound and sustainable business. The Disclosure Statement for
13 the Plan was approved by the Court on July 31, 2003. The confirmation hearing has been
14 scheduled to commence on November 10, 2003.

15 4. The principal source of funding for the payment of allowed claims under
16 the Plan will be the issuance and sale by the Reorganized Debtor of New Money Notes (as
17 defined in the Plan) in the original principal amount of up to approximately \$8.7 billion,
18 subject to adjustment. In addition, the Plan provides for the reinstatement of certain
19 indebtedness. The Plan also provides for the Reorganized Debtor to establish one or more
20 credit facilities and one or more customer accounts receivable financing programs for the
21 purpose of (i) funding operating expenses and seasonal fluctuations in working capital; (ii)
22 providing letters of credit or other forms of credit support and (iii) to the extent the
23 Reorganized Debtor deems appropriate or necessary, to perform the Reorganized Debtor's
24 obligations under the Plan.

25 5. Section 8.2 of the Plan provides that it is a condition precedent to the Plan
26 that "all actions, documents and agreements necessary to implement the Plan shall have been
27 effected or executed." Further, the Effective Date must have occurred on or before March
28 31, 2004. These conditions precedent require the efforts described below to commence

1 immediately so that the Debtor will be in a position to issue the New Money Notes, access
2 the above-referenced credit facilities and customer accounts receivable financing programs
3 and reinstate certain indebtedness on the Effective Date.

4 6. In order to implement the Plan, certain expenses related to the various
5 financings and reinstatement of debt must be paid by PG&E, as the issuer or borrower.
6 Since the financings and the reinstatement of debt described herein are expected to take
7 place on or before the Effective Date of the Plan, or must be structured and arranged before
8 the Effective Date, work must commence, and certain fees and costs necessary to implement
9 the financings and reinstatement of debt must be incurred, well before the Effective Date of
10 the Plan. The categories of new or reinstated debt obligations and credit facilities or devices
11 that are to be in place prior to the Effective Date may include the following:

12 a. New Money Notes. Pursuant to Section 7.2 of the Plan, on or before
13 the Effective Date PG&E will sell and issue new debt securities (the "New Money Notes")
14 in an original principal amount of up to approximately \$8.7 billion, subject to adjustment,
15 for the primary purpose of satisfying allowed claims. These notes would be issued in
16 maturities of up to thirty (30) years from issuance, depending upon market conditions on the
17 date of issuance and PG&E's need or desire to stagger maturities. It is anticipated that some
18 or all of these New Money Notes would be issued pursuant to a registration statement filed
19 with the Securities and Exchange Commission (the "Registration Statement").

20 b. Pollution Control Bonds. PG&E currently has outstanding
21 obligations with respect to various series of Pollution Control Bonds ("PC Bonds"). The
22 tax-exempt status of the PC Bonds offers lower cost financing than other indebtedness of
23 comparable maturity. PG&E has determined that it must take certain actions on or prior to
24 the Effective Date in order to preserve the benefits of the low-cost tax exempt financing
25 afforded by the PC Bonds. Due to the current structure of the obligations and their treatment
26 under the Plan, it may be necessary for certain actions to be taken with respect to the PC
27 Bonds in various classes of claims, including the following:
28

(1) Class 4a – Mortgage Backed PC Bonds. Under Section 4.7 of the Plan, the Mortgage Backed PC Bonds will be redeemed or purchased in lieu of redemption, if any of the New Money Notes are secured. In order to give PG&E the ability to preserve the benefits of the lower cost Mortgage Backed PC Bond financing by purchasing the Mortgage Backed PC Bonds in lieu of redemption, before the Effective Date certain amendments must be approved by the Bond Trustee and the California Pollution Control Financing Authority. In addition, prior to the Effective Date, PG&E may determine to arrange a bridge loan and subsequent refinancing for such transaction which must be appropriately documented.

(2) Class 4b – MBIA-insured PC Bonds. Under Section 4.9 of the Plan, if any of the New Money Notes are secured, MBIA, the bond insurer, will receive a contingent note as additional security for PG&E's obligations under its reimbursement agreement with MBIA. The possible conveyance of this security and any necessary documentation must be arranged with MBIA before the Effective Date.

(3) Class 4d - Letter of Credit Backed PC Bonds. Under Section 4.10 of the Plan, the Letter of Credit Backed PC Bonds will remain outstanding in the public markets if the necessary credit support is available on the Effective Date. If such credit support is not available, these PC Bonds will be purchased and either subsequently credit-enhanced and remarketed or refunded on or after the Effective Date. Prior to the Effective Date, new credit support or a bridge loan and subsequent refinancing must be arranged and documented in order to complete these transactions.

(4) Class 4f – Prior Bond Claims. As described more fully in Section 4.12 of the Plan, either PG&E will pay off, or PG&E or its assignee will purchase, the outstanding reimbursement obligations related to the Prior Bonds. Prior to the Effective Date, a bridge loan and/or refunding must be arranged and documented in order to accomplish these transactions.

c. Credit Facilities. Pursuant to Section 7.3 of the Plan, as of the Effective Date, PG&E shall establish one or more credit facilities for the purpose of (i)

1 funding operating expenses and seasonal fluctuations in working capital (ii) providing letters
2 of credit or other forms of credit support, and (iii) to the extent necessary or appropriate, to
3 perform the Reorganized Debtor's obligations under the Plan. These facilities may be
4 secured in whole or in part, and may include revolving and term loan credit facilities. The
5 Reorganized Debtor may also establish one or more customer accounts receivable financing
6 programs for the same purpose.

7 d. Other Potential Facilities.

8 (1) Class 3b (PC-Related Mortgage Bonds). As described more
9 fully in Sections 4.6 and 4.7 of the Plan, the PC-Related Mortgage Bonds back the Mortgage
10 Backed PC Bonds, which are classified in Class 4a. If the Class 4a bonds remain
11 outstanding, the Class 3b bonds will be replaced with New Mortgage Bonds issued pursuant
12 to the new mortgage indenture. Prior to the Effective Date, the new mortgage indenture and
13 New Mortgage Bonds must be arranged and documented.

14 (2) Structured Letters of Credit. It may be more efficient to
15 supplement or substitute traditional letters of credit with cash collateralized letters of credit,
16 where such collateral is funded by a debt placement. Before the Effective Date these
17 financings and the letters of credit would have to be structured and arranged.

18 (3) Other Credit Devices. In addition, the Reorganized Debtor may
19 be required to arrange for other credit devices, such as surety bonds and credit insurance
20 (which may be secured in whole or in part).

21 7. PG&E anticipates incurring the following categories of expenses in
22 connection with the transactions described above (all amounts are approximate):

23 a. Counsel Fees (Estimate—\$6,000,000). This category includes (i)
24 bank counsel fees and costs for negotiating and drafting agreements with respect to the
25 facilities described above, and due diligence review; (ii) bond counsel fees and costs for
26 negotiating and drafting documentation for the PC Bond amendments; (iii) trustees' counsel
27 fees and costs related to the preparation of new mortgage indenture, PC Bond amendments
28 and new debt issuances, including the New Money Notes; (iv) underwriters' counsel in

1 connection with drafting an indenture and due diligence for offerings of debt issuances
2 (other than New Money Notes which are issued pursuant to the Registration Statement),¹
3 which may be necessary or appropriate in connection with the debt facilities described in the
4 Plan; (v) counsel to credit providers in connection with drafting amendments and other
5 documents related to PC Bonds and (vi) opinion counsel for foreign banks.

6 b. Trustee Related Expenses (Estimate—\$200,000). Fees and costs
7 related to indenture trustees include acceptance fees and administrative service fees related
8 to the new debt offerings described above and to PC Bond document amendments; out of
9 pocket expenses for overnight mail, couriers, outside fax services, conference call services
10 and similar services; and escrow fees and fees for documentation and servicing of escrow
11 accounts.

12 c. CPUC Fees (Estimate—\$1,950,000). The Debtor expects to incur
13 substantial fees required by CPUC regulations in connection with new debt financings.

14 d. Banks (Estimate—\$3,500,000). Fees and expenses of various
15 financial institutions that Debtor expects to incur include commitment fees, to reserve the
16 lenders' commitments from the time of the syndication process until closing, and fees and
17 expenses relating to disclosure documentation, as well as expenses relating to the
18 syndication process, and costs for "road shows," including travel and meeting room rentals.

19 e. Printing Fees (Estimate—\$550,000). Debtor expects to incur
20 substantial costs for the printing of offering documents.²

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22
23 ¹PG&E previously obtained approval to pay underwriters' counsel fees relating to the
24 New Money Notes (see Motion for Authority to Pay Fees of Designated Underwriters'
Counsel (Docket No. 13460), approved by Order entered on September 10, 2003 (Docket
No. 13605)). The expenses sought herein were not covered in the previous Motion.

25 ²PG&E previously obtained approval to pay certain printer's costs relating to the
26 registration statement filing with the SEC (see Motion for Authority to Pay Filing Fee and
Printer's Costs in Connection with the Filing of Registration Statement with the Securities
27 and Exchange Commission (Docket No. 13462), approved by Order entered on September
10, 2003 (Docket No. 13606)). The printing expense for which this Motion seeks
28 authorization was not covered in the previous motion.

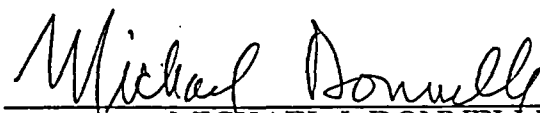
1 f. Pollution Control Bond Fees (Estimate—\$600,000). Fees and costs
2 to be incurred in connection with pollution control bonds include application and filing fees,
3 and refundable performance deposit fees.

4 g. Miscellaneous (Estimate—\$2,200,000). In each case, the fees and
5 costs that the Debtor expects to incur are difficult to estimate in advance, and the actual
6 amount incurred in any given category may vary from the estimates provided, due to
7 variations in the timing of the debt issuances and other unpredictable factors. Accordingly,
8 PG&E seeks authorization to incur up to an additional \$2,200,000 in miscellaneous expenses
9 to afford PG&E flexibility to expend greater amounts in certain categories, without the
10 necessity of obtaining additional Court approval.

11 8. The expenses set forth above are associated with the analysis, compilation
12 and presentation of complex due diligence materials and negotiating, drafting and reviewing
13 documents related to the financings, reinstatement of debt and related activities described
14 above. The brief summaries herein are not intended to describe the entire scope of the
15 services. The fees and cost estimates set forth herein are based on PG&E's estimates of the
16 scope of the services and costs and, as such, are difficult to estimate in advance.

17 9. Sound business justifications support PG&E's request to incur the
18 implementation expenses described above. These costs must be incurred in order to
19 undertake the financings that are necessary to implement the Plan. PG&E believes that the
20 commitment to incur the fees and expenses must be made promptly in order to ensure that
21 PG&E can timely meet the conditions precedent to the effectiveness of the Plan. Finally,
22 PG&E is solvent and has sufficient cash to pay these expenses without causing any
23 detriment to its creditors.

24 I declare under penalty of perjury under the laws of the United States of America
25 that the foregoing is true and correct. Executed this 31st day of October, 2003, at San
26 Francisco, California.

27 
28 MICHAEL J. DONNELLY

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