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JAMES L. LOPES (No. 63678)  
JEFFREY L. SCHAFFER (No. 91404)  
JANET A. NEXON (No. 104747)  
HOWARD, RICE, NEMEROVSKI, CANADY,  
FALK & RABKIN  
A Professional Corporation  
Three Embarcadero Center, 7th Floor  
San Francisco, California 94111-4065  
Telephone: 415/434-1600  
Facsimile: 415/217-5910

50-295/323

Attorneys for Debtor and Debtor in Possession  
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: June 26, 2001  
Time: 9:30 a.m.  
Place: 235 Pine St., 22nd Floor  
San Francisco, California  
Judge: Hon. Dennis Montali

HOWARD  
RICE  
NEMEROVSKI  
CANADY  
FALK  
& RABKIN  
A Professional Corporation

DECLARATION OF VALERIE O. FONG IN SUPPORT OF DEBTOR'S  
MOTION FOR AUTHORITY TO MAKE CAPITAL EXPENDITURES  
IN THE ORDINARY COURSE OF BUSINESS

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of Add: Rids Ogc Mail Center*

1 I, Valerie O. Fong, declare as follows:

2 1. I am the Director, Capital and Expense Program Management, for Pacific  
3 Gas and Electric Company ("PG&E"), a position I have held since November 1, 2000. I  
4 make this Declaration based upon my personal knowledge of PG&E's capital programs, and  
5 upon my review of PG&E's records concerning the matters stated herein. If called as a  
6 witness, I could and would testify competently to the facts stated herein.

7 2. Each year, PG&E makes substantial capital expenditures in its utility  
8 functions. In 2001, PG&E expects to make capital expenditures of \$1.446 billion in its basic  
9 utility functions, which include electric distribution, gas distribution, electric transmission,  
10 gas transmission and electric generation (including non-nuclear and nuclear generation). In  
11 support of these basic utility functions, PG&E also invests capital in the areas of customer  
12 services, information technology and general services, such as buildings and fleet.

13 3. PG&E spends capital funds on projects that fall into three broad categories:  
14 (1) emergency/safety projects; (2) projects that are mandated by regulatory or legal orders  
15 (including projects undertaken to remain in compliance with regulatory and legal  
16 requirements); and (3) other projects (such as projects designed to improve the reliability of  
17 PG&E's distribution or transmission system which may not be mandated by specific  
18 performance requirements).

19 4. Prominent examples of emergency and safety-related projects include  
20 replacing electric lines and poles that are damaged during storms and high winds, or  
21 replacing gas pipelines damaged by the shifting of saturated ground after rains or flooding.  
22 Examples of mandated or compliance projects include modifying gas transmission pipeline  
23 facilities in order to comply with new air quality regulations, building facilities to connect  
24 new customers to the PG&E system, and increasing the capacity of the electric transmission  
25 lines to meet the summer peak demands. Examples of "other projects" would be the  
26 automation of system equipment to allow the system to respond remotely (thus saving time  
27 by not having to dispatch personnel to the site) to electric outage situations, and the  
28 installation of additional protective devices to reduce the amount of time that customers are

1 without power once an outage has occurred.

2 5. PG&E is a highly regulated business.<sup>1</sup> PG&E's capital projects are required  
3 to comply with orders, decisions, standards and tariffs issued by various federal, state and  
4 local agencies, including the U.S. Government, the Federal Energy Regulatory Commission,  
5 the Nuclear Regulatory Commission, the U.S. Department of Transportation, the  
6 Environmental Protection Agency, the U.S. Department of Safety of Dams, the State of  
7 California, the California Public Utilities Commission, the California Energy Commission,  
8 the California Occupational Safety and Health Administration, the California Department of  
9 Water Resources, the Local Air Resources Board, the California Coastal Commission, the  
10 North American Electric Reliability Council, the Western Systems Coordinating Council,  
11 and local cities and counties, among others. As a result, PG&E spends the majority of its  
12 capital dollars on projects that are mandated by safety, regulatory or legal requirements.

13 6. Unlike other businesses, PG&E has an obligation to provide service to  
14 existing and new customers—the so-called “obligation to serve.” PG&E does not control  
15 the number of customers that are connected to its gas and electric systems, nor does it  
16 determine where there will be growth in the demand for its gas and electric services. In  
17 response to a financial emergency, PG&E cannot choose to deny service to new customers,  
18 nor to permit demand for electricity to exceed the capacity of its distribution and  
19 transmission substations and lines. Instead, it must continue to connect new customers to its  
20 systems and build the necessary capacity to meet customer demand. In the year 2000 alone,  
21 PG&E spent approximately \$290 million to physically connect approximately 100,000  
22 electric and gas distribution customers to its system.

23 7. Further, the provision of electricity and natural gas inherently involves a  
24 range of obvious safety issues. As a consequence, the construction and operation of PG&E's  
25 electric and gas facilities are mandated and controlled by complicated and overlapping laws,  
26

27 <sup>1</sup> Section 330(f) of the California Public Utilities Code states: “The delivery of electricity over  
28 transmission and distribution systems is currently regulated, and will continue to be regulated to ensure  
system safety, reliability, environmental protection, and fair access for all market participants.” Federal  
authorities place similar emphasis on the unique nature of energy utilities.

1 rules and regulations designed to ensure the safety of the public and PG&E's employees.  
2 For example, last year, PG&E spent approximately \$76 million to address safety-related  
3 issues on an emergency basis.

4 8. Additionally, the generation, transmission and distribution of electricity and  
5 natural gas involve facilities and operations that can significantly affect the environment. As  
6 a consequence, numerous regulatory agencies require PG&E to make significant capital  
7 expenditures to achieve various environmental objectives. In 2000, PG&E spent \$18.7  
8 million, and in 2001 it will spend approximately \$37.7 million, to comply with  
9 environmental rules and regulations. This rate of expenditures will continue for the next  
10 several years, driven primarily by NOx reduction projects associated with the gas  
11 transmission system.

12 9. Failure to make the necessary capital expenditures to meet its many  
13 regulatory, safety and environmental requirements can result not only in significant  
14 regulatory fines and penalties and in the reduction of authorized rates and revenues, but also  
15 in injury, or in the worst case, death.

16 10. To meet its basic utility obligations PG&E makes many thousands of capital  
17 investments each year. The vast majority of these capital investments are for a few thousand  
18 dollars each. Other capital expenditures, such as a new substation or transmission line, can  
19 cost tens of millions of dollars.

20 11. PG&E employees and outside contractors are involved in planning and  
21 constructing numerous utility capital projects each year. PG&E must plan for the efficient  
22 use of its workforce and contractors, as its construction activities often are seasonal in  
23 nature. For example, PG&E typically constructs electric capacity projects during the winter  
24 and spring so that they will be on line during the peak summer months, and gas capacity  
25 projects during the spring and summer to meet the peak winter gas demands. In contrast,  
26 most new customer connections typically occur during the residential construction season  
27 that stretches from late spring to fall. Delays in the capital approval process can throw  
28 planning and construction schedules off, creating a backlog of construction projects and

1 producing marked inefficiencies.

2 12. PG&E allocates budgets to its utility functions<sup>2</sup> every year in accordance  
3 with priorities established for the entire company. Priorities are established and monitored  
4 through the program review process.

5 13. A program is a group of projects or activities related to the management,  
6 operation and maintenance of existing asset groups of business units or corporate services  
7 departments that share the same general purpose and scope over a specific time frame.<sup>3</sup>  
8 PG&E currently has 41 programs. Exhibit A hereto lists each of these programs. A  
9 program's capital budget must be approved by the Chief Financial Officer of PG&E.  
10 PG&E's Board of Directors annually approves the overall budget for capital expenditures.

11 14. PG&E has adopted a Capital Expenditures Policy dated September 15, 1998  
12 (the "Policy"), which governs the approval of specific capital projects and the allocation of  
13 its annual capital expenditures. The policy was subsequently supplemented by a Resolution  
14 of the Board of Directors of PG&E dated June 21, 2000 (the "Resolution"). Copies of the  
15 Capital Expenditures Policy and the Resolution are attached hereto as Exhibit B. The  
16 Resolution delegates to the Chairman of the Board of PG&E (or his designee) authority to  
17 approve projects of less than \$50 million. The Chairman of the PG&E Board subsequently  
18 delegated that authority to the President and Chief Executive Officer of PG&E. (The Capital  
19 Expenditures Policy as supplemented by the Resolution is referred to hereafter as the  
20 "Policy.")

21 <sup>2</sup> The various functions involved in the review of capital expenditures include electric distribution  
22 (capacity, customer connections, maintenance and replacement work); gas distribution (capacity, customer  
23 connections, pipeline replacement, maintenance and replacement work); electric transmission (capacity and  
24 maintenance and replacement work); gas transmission (capacity and maintenance and replacement work);  
25 electric generation (nuclear, hydro and steam generation); customer service (customer information system  
such as billing and call center work, and meter installation and meter reading work); general services  
(including materials procurement, building and land services, and fleet procurement work); and information  
technology.

26 <sup>3</sup> A project is an activity, or group of similar or closely related activities, which (a) has a single,  
27 clearly-defined purpose, scope, cost plan, and time frame; and (b) involves capital expenditures for  
28 (i) acquisition or long-term lease of real property; (ii) acquisition, long-term lease or construction of new  
equipment or facilities; or (iii) additions to or removal of existing equipment or facilities. If a project will be  
undertaken over an extended period of time and divided into phases, the term "project" encompasses all  
phases, including those for which precise cost plans and schedules are not yet fully developed.

1           15. The Policy identifies the authority level required to allocate capital budgets  
2 among the business units and corporate services departments; specifies the approval levels  
3 required for expenditures that are either included or omitted from current department budget  
4 allocations; provides rules to address project overruns; and designates monitoring  
5 responsibilities. The Policy recognizes that many capital projects require expenditures that  
6 extend over multiple years and that the annual budget approval process does not fully  
7 capture the multi-year nature of such projects. Thus, prior to commencing work a capital  
8 project must receive both overall project authorization as specified in the Policy and  
9 approval in the annual budget for expenditures forecast for the year encompassed by the  
10 budget.

11           16. Pursuant to the Policy, the Boards of Directors of PG&E and PG&E  
12 Corporation (PG&E's parent company) approve the overall annual capital budget. The  
13 Chief Financial Officer of PG&E allocates funds among business units and corporate  
14 services departments by approving program budgets based on company-wide priorities.  
15 PG&E's Policy expressly identifies approvals required for projects based on the forecasted  
16 cost of the project, as follows:

17           a. Projects of \$50 million or more. Projects that are forecasted to cost \$50  
18 million or more must be approved by the Boards of Directors of PG&E and PG&E  
19 Corporation. Pursuant to the Policy and the subsequent delegation by the Chairman of the  
20 Board, projects of less than \$50 million may be approved by the President and Chief  
21 Executive Officer.

22           b. Projects Within the Program Budget. For budgeted projects of \$10 million  
23 or more (but less than \$50 million) which include \$1 million or more of capital expenditures,  
24 the project must be approved by the President and Chief Executive Officer, as authorized  
25 designee of the Board of Directors of PG&E.<sup>4</sup> Such approval is preceded by detailed review  
26

27           <sup>4</sup> If a budgeted project is less than \$10 million, or is \$10 million or more but includes less than \$1  
28 million of capital expenditures, the officer sponsoring the project may approve the project, with the exception  
that all capital projects greater than \$1 million require the Chief Financial Officer's written concurrence.  
(This is in accordance with the Capital Program Review and Approval Process.)

1 of the project by members of PG&E's Management Committee, including the Chief  
2 Financial Officer.

3 c. Projects Exceeding Program Budget. For project expenditures that are not  
4 within the program budget, the following authorizations are required: if the budget is  
5 exceeded, the Chief Financial Officer must approve any additional expenditures estimated to  
6 exceed the program budget; and if a project of \$1 million or more of capital expenditures  
7 causes the annual capital budget to be exceeded, it must be approved by the Boards of  
8 Directors of PG&E and PG&E Corporation.

9 d. Project Overruns. For projects that include \$1 million or more in capital, if  
10 an overrun causes a project to exceed \$10 million (but not to exceed \$50 million), or if a  
11 project originally estimated to cost \$10 million or more is expected to overrun by more than  
12 ten percent (10%), it must be approved by the President and Chief Executive Officer, as  
13 authorized designee of the Board of Directors of PG&E.<sup>5</sup>

14 e. Emergency Work. Approvals are not required for expenditures or  
15 commitments of funds for (i) emergency restorative work immediately following sudden  
16 damage to facilities from equipment failures, storms, floods or other catastrophic events, and  
17 (ii) emergency preventive work undertaken to avert or mitigate significant and imminent  
18 safety hazards, damage to facilities, or service interruptions to customers.

19 17. Attached hereto as Exhibit C are tables illustrating PG&E's proposed  
20 criteria for new capital project expenditures and project overrun expenditures. The review  
21 processes set forth in these tables were designed, in consultation with the Official Unsecured  
22 Creditors' Committee (the "Committee"), to be consistent with PG&E's existing Capital  
23 Expenditures Policy, i.e., the requirement of Committee review (in certain instances) or  
24 Bankruptcy Court approval (in other instances) of proposed capital expenditures are  
25 triggered by similar dollar thresholds to that which trigger the requirement of various  
26 approvals under the Capital Expenditures Policy.

27 \_\_\_\_\_  
28 <sup>5</sup> In all other cases, the sponsoring officer may approve the project overrun within his or her  
delegated authority.

1           18. At the time this case was commenced, PG&E had 30 ongoing capital  
2 projects estimated to cost \$10 million or more that already had been approved through the  
3 internal corporate approval process described above. These projects were and are in various  
4 stages—from the pre-construction stages to nearing completion. As existing projects, they  
5 would not be subject to the procedure described above for Committee and Bankruptcy Court  
6 review. Instead, PG&E has submitted a description of each of these projects to the  
7 Committee, and, with the concurrence of the Committee, by this Motion seeks this Court's  
8 approval of PG&E's expenditures to complete each of these ongoing capital projects (the  
9 "Existing Projects").

10           19. The Existing Projects are described in Exhibit D (1) – (30) hereto, which  
11 Exhibits were provided to the Committee for review prior to finalizing and filing the Motion.  
12 The Existing Projects encompass the following projects within four of the five utility  
13 functions as well as the support services functions:

14           a. PG&E's Electric Distribution System.

15           PG&E's electric distribution system delivers electricity from the high  
16 voltage electric transmission system to its 4.4 million electric customers in 77,000 square  
17 miles of Northern and Central California. The electric distribution system has a net book  
18 value of \$7.1 billion, and includes 773 substations, 110,000 miles of overhead lines, 22,000  
19 miles of underground lines, and 2.2 million poles.

20           There is currently one Existing Project in this category, the Fort Ord  
21 Distribution System Acquisition and Upgrade, forecasted to cost \$13.5 million, with \$7.8  
22 million forecast to be spent in 2001 and beyond.

23           b. PG&E's Electric Transmission System.

24           PG&E's electric transmission system delivers electric energy from power  
25 generators and interconnection points to the electric distribution system. The electric  
26 transmission system has a net book value of approximately \$1.5 billion. The system  
27 includes approximately 18,376 circuit miles of interconnected transmission lines of 60  
28 kilovolts (kV) to 500 kV and transmission substations having a capacity of approximately



1 39,859 megawatt-amperes. There are currently 13 Existing Projects in the electric  
2 transmission category, with forecasted costs ranging from \$10.2 million to \$140 million, and  
3 a total aggregate forecasted cost of \$450.6 million. Of that amount, \$384 million is forecast  
4 to be spent in 2001 and beyond.

5 c. Gas Transmission And Storage System.

6 PG&E's gas transmission system receives gas from interstate pipeline  
7 companies, California natural gas producers, and other utilities, and delivers that gas to  
8 various end-users, PG&E's gas distribution system, and other pipelines and utilities. The  
9 gas transmission facilities also deliver gas to and receive gas from PG&E and third party gas  
10 storage facilities.

11 PG&E's three underground storage facilities are used primarily to ensure a  
12 high level of service reliability to core customers during winter months. The storage  
13 facilities are also used to support pipeline balancing service and unbundled storage service.

14 The gas transmission and storage system has a net book value of  
15 approximately \$1.4 billion, and consists of approximately 5,500 miles of pipeline, ten  
16 compressor stations, and three underground storage facilities. There are three Existing  
17 Projects in the gas transmission category, with forecasted costs ranging from \$8.4 million to  
18 \$30.8 million, and a total aggregate forecast of \$50 million. Of that amount, \$32.4 million is  
19 forecast to be spent in 2001 and beyond.

20 d. Power Generation.

21 PG&E currently owns and operates both nuclear and non-nuclear generation  
22 facilities as described below, giving rise to the following Existing Projects.

23 i) Nuclear Generation.

24 PG&E owns nuclear facilities at Diablo Canyon and at Humboldt  
25 Bay. The Diablo Canyon Nuclear Power Plant is located on the Pacific coastline in San Luis  
26 Obispo County. The plant consists of two Westinghouse Pressurized Water reactors each  
27 producing 1087 MW of net electrical generation. The total electrical output of 2174 MW  
28 meets the needs of approximately 2 million customers. Unit 1 and Unit 2 operating licenses

1 extend through September 2021 and April 2025, respectively. The lifetime capacity factors  
2 of Unit 1 and 2 through December 2000 are 82% and 84%, respectively. The Humboldt Bay  
3 Nuclear Plant is a 65 megawatt facility currently in a custodial mode called SAFSTOR, with  
4 some preliminary decommissioning work being done.

5 There is currently one Existing Project in the nuclear generation  
6 category, consisting of a \$31 million project for Humboldt Bay Nuclear Unit 3 Initial  
7 Dismantlement, of which \$9.7 million remains to be spent.

8 ii) Hydroelectric & Fossil Generation System.

9 PG&E's hydroelectric powerhouses and fossil power plants generate  
10 electricity that is delivered to the transmission system for use by PG&E's 4.4 million electric  
11 customers. The hydroelectric system consists of 110 generating units at 68 powerhouses and  
12 switchyards with a total generating capacity of 3,896 megawatts. This system includes 99  
13 reservoirs, 76 diversions, 174 dams, 184 miles of canals, 44 miles of flumes, 135 miles of  
14 tunnels, 19 miles of pipe, 5 miles of natural waterways, 8 switching centers and the  
15 associated headquarters and service centers.

16 The fossil power plants are located at Hunters Point in San Francisco  
17 and in Humboldt Bay in Eureka County. The Hunters Point power plant consists of three  
18 generating units with a combined capacity of 426 megawatts. The Humboldt plant consists  
19 of two fossil units with a combined capacity of 105 megawatts, and two combustion turbines  
20 with a capacity of 15 megawatts each.

21 There are seven Existing Projects in this category, with forecasted  
22 costs ranging from \$13.3 million to \$58.8 million, with a total aggregate forecast cost of  
23 \$155.2 million. Of that total, \$37.3 million is forecast to be spent in 2001 and beyond.

24 e. Customer And Support Services.

25 PG&E maintains and operates an extensive infrastructure to provide  
26 services to its gas and electric customers, including service centers, call centers and office  
27 buildings, and a system of warehouses. It also maintains and operates an extensive fleet of  
28 vehicles and equipment and complex voice and data communications and computer systems.

1                   i) Customer Services.

2                   In the near future, the vast majority of customer services capital  
3 expenditures are to replace and upgrade the 30-year old Customer Information System used  
4 to bill customers and report revenues. This Existing Project is forecast to cost a total of \$345  
5 million on its completion in 2002, with \$110.3 million forecast to be spent in 2001 and 2002.

6                   ii) Information Technology.

7                   Separate from the Customer Information System project  
8 mentioned above, PG&E plans to spend about \$80 million of capital annually on  
9 Information Technology projects, such as software applications, operating and maintaining  
10 its voice and data communications systems, supporting desktop computing and other  
11 information technology spending. There are currently three Existing Projects in information  
12 technology: (i) to upgrade and integrate functions of PG&E's SAP financial accounting and  
13 work management systems (forecast amount \$17.7 million), (ii) to install an Enterprise  
14 Application Integration System, which will enable efficient methods for integrating  
15 operational, billing and revenue, and customer data from various computer applications  
16 within PG&E, and (iii) for the replacement of the West Valley Analog Microwave  
17 Communication system with a digital system in order to meet reliability standards for critical  
18 electric transmission facilities. The forecasted costs for these three Existing Projects range  
19 from \$10.6 million to \$48.3 million, with a total aggregate cost of \$74.5 million. Of the  
20 \$74.5 million total, \$50.6 million is forecast to be spent in 2001 and beyond.

21                   iii) General Services.

22                   PG&E forecasts that it will spend about \$180 million of capital  
23 annually on other support services, including building and land services, operating and  
24 maintaining the fleet, and supporting warehouse operations. There is currently one Existing  
25 Project in this category—redevelopment of the Fresno Service Center at a forecast total cost  
26 of \$27.7 million, of which \$27.5 million is forecast to be spent in 2001 and beyond.

27                   20. Each of these Existing Projects has been approved by PG&E's internal  
28 procedures, has been reviewed and approved by the Committee, and is necessary for the

1 conduct of PG&E's business. Because the details of these projects are known and the  
2 projects already have been fully approved internally by PG&E , PG&E and the Committee  
3 concurred that it made most sense to seek approval as part of this Motion for PG&E to incur  
4 the remaining expenditures for these Existing Projects.

5 21. PG&E has sought and obtained the Committee's concurrence with and  
6 support of the capital expenditures authority sought in this Motion.

7 I declare under penalty of perjury under the laws of the United States of America  
8 that the foregoing is true and correct. Executed this 6<sup>th</sup> day of June, 2001, at San  
9 Francisco, California.



VALERIE O. FONG

13 HOWARD  
14 RICE  
15 NEMEROVSKI  
16 CANADY  
17 FALK  
18 & RAEBIN  
19 A Registered Corporation

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NUMBER SET FORTH IN THE UPPER-LEFT-HAND CORNER  
OF THE FIRST PAGE OF THIS DECLARATION