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PACIFIC GAS AND ELECTRIC COMPANY

50-275/323

UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

HOWARD RICE NEMEROVSKI CANADY FALK & RABKIN
A Professional Corporation

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, 2001 Time: 9:30 a.m. Place: 235 Pine St., 22nd Floor San Francisco, California Judge: Hon. Dennis Montali

DECLARATION OF LINDA E. CHINN IN SUPPORT OF PG&E'S MOTION FOR AUTHORITY (1) TO SELL (FREE AND CLEAR OF A SPECIFIED LIEN), DONATE, LEASE, LICENSE OR OTHERWISE ENCUMBER ITS REAL AND PERSONAL PROPERTY, AND (2) TO ENTER INTO LEASE, LICENSE AND PERMIT AGREEMENTS FOR THE USE OF THIRD-PARTY PROPERTY, IN EACH CASE <u>WITHIN SPECIFIED PARAMETERS</u>

A001 Add: Kids Age Mail Center

I, Linda E. Chinn, declare:

1. I am a Vice President of General Services in the Utility Operations Department of Pacific Gas and Electric Company, the debtor and debtor in possession in the above-captioned Chapter 11 case (the "Debtor" or "PG&E"). I submit this Declaration in support of PG&E's Motion For Authority (1) To Sell (Free And Clear Of A Specified Lien), Donate, Lease, License Or Otherwise Encumber Its Real And Personal Property, And (2) To Enter Into Lease, License And Permit Agreements For The Use Of Third-Party Property, In Each Case Within Specified Parameters (the "Motion"). In my above-identified capacity, I am knowledgeable about and familiar with a wide range of the transactions PG&E undertakes that are described in this Declaration and the Motion. However, because such transactions cut across virtually all of PG&E's operations and internal administrative and organizational structures, there is no one person within PG&E who has first-hand knowledge about all of the transactions and data described in this Declaration and the Motion. I therefore have acted as an information clearing-house of sorts, putting out requests for information to a wide range of informed employees within PG&E, and organizing and collating the responses I have received to provide the composite information set forth in this Declaration and the Motion. Accordingly, all of the information set forth in this Declaration is either based on my own knowledge, or is based on information and belief developed directly as a result of the responses I have received from informed employees of PG&E respecting the requests for information that I directed to such employees. If called as a witness, I could and would testify competently to the facts set forth herein based on such procedure and methodology for determining such facts.

2. The types of transactions involving real property or personal property that PG&E routinely undertakes in the ordinary course of business can be categorized into five groups: (1) sales of property owned by PG&E; (2) non-telecommunications leases, licenses and permits for use of property owned by PG&E, with PG&E as the lessor, licensor or permittor, as the case may be, (3) telecommunications leases, licenses, permits and joint pole agreements for use of property owned by PG&E, again with PG&E as the lessor; (4)

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PG&E's use of third-party property pursuant to leases, licenses and permits, with PG&E as the lessee, licensee or permittee; and (5) the donation of property with no or little residual value to charitable organizations, consistent with PG&E's past practices. The first three categories are ancillary to PG&E's utility business and provide additional sources of revenue for PG&E. The fourth category encompasses transactions where PG&E expends money to procure rights pertaining to land and/or commercial or other improved properties necessary for utility operations. The fifth category is ancillary to PG&E's operations inasmuch as in a business as equipment-intensive as PG&E's business, there is always a steady stream of equipment and other hard assets that have become obsolete or otherwise reached the end of their useful lives, and PG&E's property donation practices provide an efficient way of disposing of such assets while at the same time benefiting organizations in need.

3. To provide a general overview of the dollar level of annual activity in the foregoing types of transactions based on PG&E's experience over the last several years, PG&E estimates that on an annual basis it receives approximately $8.4 million in gross revenue from the sale of surplus property, $6.2 million in gross revenue from timber sales, less than $1 million in gross revenue from the sale of single and multiple customer operating facilities, $1.5 million in gross revenue from streetlight sales, $670,000 in gross revenue from eminent domain settlements, less than $100,000 in gross revenue from sales or grants of easements, $4 million in gross revenue from non-telecommunications leases, licenses and permits to others for the use of PG&E property, and $6.7 million in gross revenue from telecommunications-related leases, licenses and permits to others for the use of PG&E property. PG&E further estimates that on an annual basis it spends approximately $15 million on leases, and less than $1 million on licenses and permits necessary for operation of its utility business. The property donations program obviously does not produce any revenue for PG&E. All of the foregoing types of transactions, as well as the property donations program, are described in further detail below.

4. The authority sought by the Motion will benefit the estate by allowing PG&E to continue its ordinary business practices with respect to selling, donating, leasing, licensing,

permitting and otherwise encumbering PG&E-owned real and personal property. Additionally, the authority sought by the Motion will facilitate PG&E's ability to access third-party property necessary for the safe and reliable delivery of services to PG&E customers. If the Court grants PG&E the requested authority, PG&E will be able to enter into routine real and personal property transactions without unnecessarily burdening this Court or the Committee with individual requests for approval of each of PG&E's sales, leases, licenses, and permit agreements and each property donation, most of which have little or no effect on PG&E's ongoing utility operations or the overall assets of the estate.

5. PG&E does not by the Motion seek to obviate or otherwise affect any California Public Utilities Code approval requirements for any sale, lease, license or permit transactions within the ambit of this Motion. Rather, during the pendency of its Chapter 11 case prior to the effective date of a confirmed plan of reorganization, PG&E intends to comply with the requirements of the California Public Utilities Code respecting real and personal property transactions unless and until PG&E specifically moves this Court for relief from such requirements or for a determination that some or all of such requirements are not applicable. Accordingly, the Motion, if granted, will in no way affect the applicability of any state law provisions requiring approval by the CPUC of any transaction subject to this Motion.

6. In addition, except for the existing cash collateral stipulation with BNY Western Trust Company as incorporated into the Motion and any Order thereon, PG&E does not by the Motion seek to circumscribe or affect any specific protections afforded any lienholder, co-interest owner or the like under various provisions of Section 363 of the United States Bankruptcy Code (11 U.S.C. §363)[1] which may be applicable with respect to any specific property of the debtor proposed to be sold, leased or used.

7. PG&E is an investor-owned utility providing electric and gas services to millions of California residents and businesses. Beginning approximately last summer, as a result of the partial deregulation of the power industry, PG&E was forced to pay dramatically increased

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[1]Unless otherwise expressly stated, all Section references in this Declaration are to the United States Bankruptcy Code (title 11 of the United States Code).

wholesale prices for electricity, but has been 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.

SALES OF PG&E OWNED PROPERTY

8. The types of sales of PG&E-owned property covered by the Motion break down into five groups, as follows.

A. Sales of Surplus Real Property

9. Each year PG&E sells utility-owned property which has been identified as surplus property. For purposes of the Motion, "surplus property" means property as to which PG&E has determined it no longer needs to maintain a fee interest for utility purposes.[2] The sale of surplus property allows PG&E to avoid carrying costs associated with land and buildings that PG&E no longer needs to own in fee. Some of the avoided costs include the elimination of property taxes, maintenance costs, insurance payments, and other liabilities related to the respective properties. For these business reasons, PG&E regularly identifies and sells surplus property.

10. Some of the surplus property is sold outright and some of the property is sold subject to PG&E retaining some form of land rights encumbrance, typically in the form of an easement. For example, PG&E may determine that it is no longer necessary to retain a fee interest in a particular parcel of land, but the parcel may contain underground gas lines which PG&E must retain for utility purposes. In such instances, PG&E will sell the fee interest in

[2]Although the Motion primarily concerns transactions involving certain tangible property, various intangible property rights are also within its scope. For example, included in the category of surplus property that may be disposed of pursuant to the Motion are transferable development rights ("TDRs"), which are intangible rights associated with PG&E's real property holdings.

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the property and retain an easement for the underground gas line. Since PG&E retains the necessary land rights, utility operations are not affected by the sale of surplus property.

11. Over the last five years, PG&E has sold approximately 63 surplus properties and generated over $43 million in gross revenue from such sales. The size of the properties sold ranged from less than one acre to over 3,000 acres. The purchase prices of the properties ranged from $18,000 to $3.9 million.[3] The average annual revenue from surplus property sales over this five-year period is $8.4 million.

B. Sale of Timber Harvested on PG&E's Hydroelectric Property

12. PG&E has a Timber Management Program which sells harvested timber grown on PG&E property to private parties. The timber is harvested in accordance with timber harvesting plans approved by the California Department of Forestry and Fire Protection. The timber grows on PG&E's hydroelectric watershed lands and is managed in a sustained yield manner in an effort to maintain the health and vigor of the forest, and remove hazards near PG&E facilities. PG&E has no use for the timber and therefore sells it to private parties to generate revenue. Over the last five years, PG&E has sold over $30 million in timber to private parties. The average annual revenue from timber sales is $6.2 million.

C. Operating Property

13. Distribution Facility Sales. From time to time, PG&E is approached by municipal utility systems, irrigation districts or other electric distribution providers with requests to purchase a limited amount of system facilities. A sale of distribution facilities typically includes poles, overhead and underground conductors, meters and transformers. Sales of larger distribution facilities may also involve substations, service yards and offices. In the normal course, these sale opportunities arise where the prospective buyer operates a distribution system that adjoins PG&E's system and, because the area in question is to be

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[3]From time to time, PG&E donates real property to third parties where, for example, the property is difficult to sell due to liabilities associated with the property or otherwise the costs or burdens associated with disposing of the property exceed the value of the property. In any instance where PG&E contemplated such a donation, PG&E would provide to the Committee notice and an opportunity to object. This is distinct from the personal property donations program described below.

annexed or because of desired operating efficiencies, the public entity wishes to acquire PG&E operating property and is considering using the power of eminent domain to do so. Customers also from time to time approach PG&E seeking to purchase a dedicated substation or transformer. While acquisition requests relating to large system segments raise complex financial and legal issues and are not encompassed by this Motion, PG&E occasionally is willing to make small distribution segment sales (i.e., facilities sold for less than $2 million) at a price generally based on replacement cost new, less depreciation. The average annual revenue from distribution facility sales to individual customers and to other distribution providers serving multiple customers is less than $1 million.

14. Streetlight Sales. PG&E is not typically in the business of selling streetlights, since street lighting is a revenue-generating service provided to its customers. However, since the late 1980s cities have condemned streetlight facilities, arguing that the cities can maintain the facilities at less cost. To avoid the costly condemnation process, PG&E from time to time in the last several years has entered into consensual sales agreements with cities for streetlight facilities. By using the sale process, PG&E receives adequate compensation for the streetlight facilities and transaction costs are reduced. The sales price for the facilities is determined by appraisals conducted by PG&E's Capital Accounting Department, using generally accepted accounting principles and accounting criteria approved by the CPUC and FERC. The average annual revenue from streetlight sales is $1.5 million.

D. Stipulations/Settlements Where PG&E is Named as Defendant in Eminent Domain Cases

15. On occasion PG&E is named as a defendant in eminent domain actions commenced by governmental entities. These condemnation actions are the result of government projects on parcels of land that are either owned in fee by PG&E or contain easements owned by PG&E. For parcels of land that are not owned in fee by PG&E, PG&E typically ensures that no PG&E facilities or easements will be affected as a result of the contemplated condemnation. For condemnation of a parcel of land owned by PG&E in fee, PG&E typically files a stipulated judgment agreeing to accept just compensation (generally, the fair market value based on appraisal) for the parcel that is being condemned. On

average, approximately three to five properties owned by PG&E in fee are condemned annually, generating an average of $670,000 per year.

E. Sale/Grant of Easements

16. The sale/grant of easements is conceptually akin to the sale of surplus properties, but they do not fall into that category because, as described above, the sale of "surplus properties" means a sale in which PG&E transfers its fee interest in real property. PG&E sells easements to third parties for a variety of purposes, including roads, sewer lines, underground pipelines, generation-related uses, and general ingress and egress. Sometimes the sales are made because the purchasing party's use of the easement will facilitate or otherwise benefit some aspect of PG&E's business operations, sometimes they are made because there are legal issues surrounding the purchaser's right to an easement under real property law doctrines, and sometimes they are made simply because they are a revenue-raising source and the easement to be granted is not incompatible with PG&E's use of its fee interest in the property. PG&E estimates that for the three-year period from 1998 through 2000, it received gross revenue of approximately $94,000 per year from the grant/sale of easements. PG&E by the Motion seeks authority to continue with its easement granting activity.

NON-TELECOMMUNICATIONS LEASES, LICENSES AND PERMITS FOR USE OF PG&E PROPERTY

17. PG&E enters into lease agreements and license agreements, and issues permits, for use by third parties of PG&E-owned land and other property when the intended use is a compatible secondary use of the property which does not interfere with utility operations. This activity generates revenue and also helps to reduce the maintenance costs associated with such properties. PG&E is the lessor, licensor or permittor under approximately 2,712 individual agreements, which can be generally categorized as pertaining to one of the following seven functions or uses: agriculture and grazing; commercial; park and recreation; PG&E employee residences; parking and storage; training; or other. The seven functions are summarized as follows:

a. Agriculture and Grazing Agreements. The agriculture and grazing agreements allow others to use vacant land for growing various agricultural products or as pastureland for animal grazing.

b. Commercial Agreements. The commercial agreements are for the use of land and buildings for various commercial purposes including but not limited to resorts, posting of signs, fish hatcheries, nurseries, siting of electrical equipment, and retail spaces in PG&E office buildings.

c. Park and Recreation Agreements. The park and recreation agreements allow the use of land for parks or other recreational purposes such as marinas, recreational homesites or boat docks near PG&E-owned reservoirs or other bodies of water. This category also includes public recreation program agreements, mandated by individual, project specific FERC licenses, which offer camping and boating access to the public.

d Employee Residences and Cottages. PG&E employee residences are the cottages and homes specifically for use by PG&E employees who are headquartered at remote hydroelectric facilities.

e. Parking and Storage Agreements. Parking and storage agreements are entered into when others wish to use PG&E's excess property for parking and/or storage of materials and equipment.

f. Training. Day Use Agreements allow others the use of PG&E's training, demonstration and conference facilities.

g. Other. Agreements characterized as "other" do not easily fit into the other categories and include environmental site access agreements, road access agreements, and the like.

In calendar year 2000, PG&E received approximately $2.5 million in revenues from its leasing, licensing and permitting activities. On average, PG&E enters into about 600 new leases, licenses and permits annually, and 100 renewals. In calendar year 2000, PG&E also received approximately $2.8 million in fees from 967 day-use programs held at the training and demonstration facilities at PG&E's Learning Center in San Ramon and the

Pacific Energy Center in San Francisco.

A summary of the quantity of active leases, licenses, permits and day-use agreements is contained in the table below:

Category	Leases	Licenses	Permits	Total
Agriculture and Grazing	23	84	7	114
Commercial	42	27	5	74
Park and Recreation	64	1276	32	1372
PG&E Employee Residences	68	0	0	68
Parking and Storage	24	43	5	72
Training Facilities (number of day-use agreements—year 2000 only)		967		967
Other	0	10	11	21
TOTAL	221	2431	60	2712

TELECOMMUNICATIONS LEASES, LICENSES, PERMITS AND JOINT POLE AGREEMENTS FOR USE OF PG&E PROPERTY

18. The telecommunications leases, licenses and permits for the use of PG&E property allow telecommunications-related uses of PG&E property by third parties so long as such uses are compatible with PG&E's utility service. The telecommunications leases, licenses and permits can be categorized into one of the following types of agreements: pole attachment and underground conduit, wireless personal communication systems (PCS), wireline (fiber optic), and other. These four types of agreements are described as follows:

a. Pole Attachment and Underground Conduit Agreements. Pole attachment and/or underground conduit agreements allow telecommunications companies, cable companies and school districts to attach communications facilities to PG&E or jointly-owned distribution poles and/ or PG&E-owned underground conduit.

b. Wireless Agreements. Wireless personal communication system (PCS) agreements allow cellular carriers to mount PCS antennas on PG&E towers, poles, or buildings located on land owned in fee or on land in which PG&E has an easement interest.

c. Wireline Agreements. Wireline agreements allow telecommunications companies to utilize available space on PG&E's electric transmission and distribution infrastructure for the installation of fiber optic facilities.

d. Other Agreements. Other types of agreements include those allowing others to use PG&E land and improvements for vault space, antennas, and passive reflectors as well as technical software licenses.

19. Overall, PG&E received over $12 million in revenues in 2000 from agreements for the use of its electric transmission, distribution and telecommunications infrastructure. This revenue source has been growing over the last five years and the growth in this area is expected to continue as PG&E continues to identify opportunities to generate revenue from the existing infrastructure.

LEASES, LICENSES AND PERMITS FOR PG&E USE OF THIRD-PARTY PROPERTY

20. The operation of PG&E's utility business requires that PG&E enter into agreements for the use of property owned by third parties. In the ordinary course of its business, PG&E regularly enters into agreements for the use of land and buildings owned by third parties to support the utility business and provide adequate gas and electric service to PG&E customers.

21. PG&E is currently the lessee under approximately 260 leases. The leases generally fit within one of the following four categories: office, utility, telecommunications or parking and storage. These four categories are more fully described as follows:

a. Office Leases. The office leases include high-rise office space, warehouses with large yards and offices, small customer service offices, and yards with a small office building.

b. Utility Leases. The utility leases are used to support the provision of gas and electric service to PG&E's customers and include leases of land for electric substations, mobile generator sites and gas regulator/meter stations.

c. Telecommunications Leases. The telecommunications leases are used to support PG&E's independent telecommunications infrastructure and include leasing of vault and antenna/passive reflector space on mountaintops and other key locations throughout PG&E's service territory.

d. Parking and Storage Leases. The parking and storage leases are used to provide ancillary parking or storage of material and equipment adjacent to a PG&E facility or PG&E project.

22. Overall, PG&E's total annual leases payments under leases where PG&E is the lessee average $15.6 million. In addition, PG&E has acquired permits and licenses from various state, federal and local agencies or private parties such as railroads, usually for the purpose of PG&E facilities crossing through lands or easements owned by others. These include permits from the San Francisco Bay Conservation and Development Commission (BCDC), California Coastal Commission, California Department of Fish and Game, Army Corps of Engineers, California State Lands Commission, United States Forest Service, water districts and municipal utility districts. PG&E also acquires licenses and permits from private parties for permission to enter property for temporary purposes such as surveying and environmental testing. The annual expense to PG&E for these licenses and permits in 2000 was less than $1 million. PG&E generally enters into 50 new leases, licenses and permits per year and 640 renewals per year. This, of course, can vary dramatically in any given year, based on such factors as the number of leases expiring that year, unanticipated changes in needs, and the like.

PROPERTY DONATIONS

23. PG&E regularly donates tangible personal property to charitable organizations and government entities. There are two principal types of in-kind donations that PG&E seeks authority to continue making pursuant to the Motion. The first type is the donation of tangible personal property that has no or de minimis residual value. For example, because of the rapid obsolescence of such equipment as computers and cell phones, these types of assets have virtually no value at the end of their useful life to PG&E. The largest type of donation within this category is the donation of computers for schools and community-based organizations. PG&E at one time had a contract with The Detwiler Foundation, pursuant to which Detwiler would refurbish old computers and distribute them to needy organizations. But since The Detwiler Foundation no longer performs this function, PG&E has made such

donations directly on a piecemeal basis during the past year. PG&E is presently exploring a relationship with a community-based organization in Fresno, California, that would perform a similar refurbishing and distribution function previously performed by The Detwiler Foundation. As another example, the United Way of the Bay Area has requested that PG&E donate any used cellular telephones, which PG&E is evaluating and may proceed to do.

24. The second type of in-kind donation covered by the Motion is where the tangible personal property to be donated is no longer useful to PG&E but has some small residual value. For example, PG&E over the past two years has donated used motor vehicles that could be sold through fleet services, as well as older equipment such as trailers, containers, poles and photographic supplies that likely could be sold for some small residual value. A specific example of a donation in this category, made in calendar year 2000, is a truck to the Mendocino Volunteer Fire Department. Donations in this category are made only to non-profit organizations or local governmental entities. By the Motion, PG&E seeks authority to make annual donations of tangible personal property in this category with an aggregate residual value not to exceed $500,000 without further Committee or Court review or approval. PG&E will seek authority from the Court before proceeding with any donation that would cause the aggregate amount of donations to exceed $500,000 in residual value during any calendar year.

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PROPOSED CRITERIA FOR REVIEW AND APPROVAL OF SALE, LEASE, LICENSE AND PERMIT AGREEMENTS BETWEEN PG&E AND THIRD PARTIES

25. Even though PG&E's transactions described above with respect to the sale, donation, lease, licensing, permitting or other encumbrance of real and personal property involves transactions, receipts and expenditures that PG&E believes are in the vast majority of instances in the ordinary course of its business, PG&E recognizes that its creditors have an interest in evaluating unusually large transactions which involve substantial dollars. PG&E proposes to address this concern by adopting a procedure for determining when real property and personal property sales, donations, leases, licenses, permits and similar transactions must be reviewed by the Official Committee of Unsecured Creditors (the "Committee") and when

such transactions must be approved by the Bankruptcy Court. Attached hereto as Exhibit A is a chart (the "Criteria Chart") setting forth PG&E's proposed criteria for Committee review or Court approval of real property and personal property transactions within the scope of the Motion. As illustrated by the Criteria Chart, PG&E proposes to submit to the Committee for review the following real property and personal property transactions:

- Any sale of surplus real property where the sale price is between $5 million and $50 million, or the sale price is less than 80% of fair market value ("FMV"), as determined by appraisal or competitive bidding;

- Any sale of operating property consisting of distributions facilities or streetlights where the sale price is between $2 million and $50 million, or the sale price is less than 80% of FMV, as determined by appraisal or competitive bidding;

- Any eminent domain action/settlement where the sale price is between $5 million and $50 million, or the sale price is less than 80% of FMV, as determined by appraisal;

- Any sale of an easement where the sale price is between $100,000 and $500,000; or any sale of an easement that, after giving effect to such current proposed sale transaction, would result in easement sale transactions exceeding $500,000 in the aggregate during any calendar year;

- Any lease, license or permit of PG&E-owned property to a third party for grazing/agricultural, recreational or residential use, where the revenue under such lease, license or permit is between $500,000 and $1 million annually, or between $3 million and $7 million over the life of such lease, license or permit (excluding any unexercised extension option);[4]

- Any lease, license or permit of PGE-owned property to a third party for commercial/industrial or peaker/generation use, where the revenue under such lease, license or permit is between $1 million and $10 million annually, or

[4]PG&E notes that lease, license, permit and joint pole agreements, which allow third parties to use PG&E-owned property, are of a different nature than the other types of transactions and arguably should not need further review or approval at any dollar levels. This is because virtually all activities permitted on PG&E property under lease, license, permit and joint pole agreements are compatible secondary uses of utility property which do not interfere with utility operations or the value of property to PG&E. Nonetheless, PG&E has accommodated the Committee's request that some review-triggering threshold also be established for these types of transactions, covered in the text in the fifth through seventh bullet points.

between $10 million and $25 million over the life of such lease, license or permit (excluding any unexercised extension option);

•Any telecommunications lease, license or permit of PG&E-owned property, where the revenue under such lease, license or permit is between $1 million and $10 million annually, or between $10 million and $25 million over the life of such lease license or permit (excluding any unexercised extension option);

•Any lease, license or permit for use of third-party property by PG&E where PG&E's payment obligations under such lease, license or permit are between $1 million and $10 million annually, or between $10 million and $25 million over the life of such lease, license or permit (excluding unexercised extension options);

•Any of the foregoing transactions that is pending at the time an order on the Motion is granted will be subject to the Motion and will be subject to the same review and approval procedure described herein as if such transaction were proposed to be entered into after an order on the Motion is granted.

26. Under the proposed procedure, the Committee would have five (5) business days to review transactions submitted by PG&E. If the Committee does not object to the transaction within such period, no court order would be required for PG&E to enter into or consummate the transaction. If, on the other hand, the Committee objects to the transaction within such five-day period, PG&E, if it desires to pursue the transaction notwithstanding the lack of Committee approval, would seek this Court's order authorizing PG&E to enter into the particular agreement, upon no less than ten (10) days' written notice to the Committee and the United States Trustee.

27. As further illustrated by the Criteria Chart, review and non-objection by the Committee would not be sufficient, and Bankruptcy Court approval would be required for, the following transactions:

•Any sale of surplus real property where the sale price is $50 million or more;

•Any sale of operating property consisting of the sale of distribution facilities or streetlights where the sale price is $50 million or more;

•Any eminent domain settlement of $50 million or more;

•Any sale of an easement where the sale price is at least $500,000 or where the current proposed transaction would cause the aggregate dollar amount of sales of easements to exceed $1 million in any calendar year;

•Any lease, license or permit of PG&E-owned property to a third party for grazing/agricultural, recreational or residential use, where the revenue under such lease, license or permit is at least $1 million annually or at least $7 million over the life of such lease, license or permit (excluding any unexercised extension option);

•Any lease, license or permit of PGE-owned property to a third party for commercial/industrial or peaker/generation use, where the revenue under such lease, license or permit is at least $10 million annually or at least $25 million over the life of such lease license or permit (excluding any unexercised extension option);

•Any telecommunications lease, license or permit of PG&E-owned property, where the revenue under such lease, license or permit is at least $10 million annually or at least $25 million over the life of such lease license or permit (excluding any unexercised extension option);

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•Any lease, license or permit for use of third-party property by PG&E where PG&E's payment obligations under such lease, license or permit are at least $10 million annually or at least $25 million over the life of such lease, license or permit (excluding unexercised extension options); and

•Any donation to a charitable, non-profit or government entity of tangible personal property that would cause the aggregate residual value of all donations in a calendar year to exceed $500,000.

Bankruptcy Court approval would be sought by a motion noticed and served upon the Committee and the United States Trustee no less than ten (10) days prior to the scheduled hearing on the motion.

28. Finally, based on the foregoing thresholds triggering Committee review or Court approval, and as further illustrated by the Criteria Chart, PG&E would be permitted to engage in the following transactions without review or approval by the Committee or the Bankruptcy Court:

•Any sale of surplus real property where the sale price does not exceed $5 million, provided that the sale price is not less than 80% of fair market value ("FMV"), as determined by appraisal or competitive bidding;

- Any sale of operating property consisting of distributions facilities or streetlights where the sale price does not exceed $2 million, provided that the sale price is not less than 80% of FMV, as determined by appraisal or competitive bidding;

- Any eminent domain action/settlement where the sale price does not exceed $5 million, provided that the sale price is not less than 80% of FMV, as determined by appraisal;

- Any sale of an easement where the sale price does not exceed $100,000, provided that after giving effect to such current proposed sale transaction, the aggregate sales proceeds from easement sale transactions do not exceed $500,000 in a calendar year;

- Any lease, license or permit of PG&E-owned property to a third party for grazing/agricultural, recreational or residential use, where the revenue under such lease, license or permit does not exceed $500,000 annually and does not exceed $3 million over the life of such lease, license or permit (excluding any unexercised extension option);

- Any lease, license or permit of PGE-owned property to a third party for commercial/industrial or peaker/generation use, where the revenue under such lease, license or permit does not exceed $1 million annually and does not exceed $10 million over the life of such lease, license or permit (excluding any unexercised extension option);

- Any telecommunications lease, license or permit of PG&E-owned property, where the revenue under such lease, license or permit does not exceed $1 million annually and does not exceed $10 million over the life of such lease license or permit (excluding any unexercised extension option);

- Any lease, license or permit for use of third-party property by PG&E where PG&E's payment obligations under such lease, license or permit does not exceed $1 million annually and does not exceed $10 million over the life of such lease, license or permit (excluding unexercised extension options);

- Any donation to a charitable, non-profit or government entity of tangible personal property, provided that after giving effect to such donation, the aggregate residual value of all donations in such calendar year does not exceed $500,000; and

- Any of the foregoing transactions that is pending at the time an order on the Motion is granted and that per the foregoing criteria do not require Committee review or Court approval.

INTERPLAY BETWEEN CALIFORNIA PUBLIC UTILITIES CODE SECTION 851 AND BANKRUPTCY COURT APPROVAL OF REAL AND PERSONAL PROPERTY TRANSACTIONS

29. Under relevant state law, PG&E is required to obtain the approval of the CPUC for dispositions of certain types of properties. In particular, California Public Utilities Code ("PUC") Section 851 requires that utility assets which are "necessary or useful" for public utility purposes may not be sold, leased or otherwise encumbered without prior approval from the Commission. The requirements of PUC Section 851 apply to sales, leases, assignments, mortgages and other dispositions or encumbrances of utility property which is necessary or useful to utility operations.[5]

30. By the Motion, PG&E is not seeking to circumvent or otherwise affect the PUC Section 851 approval process. PG&E has continued to file and pursue PUC Section 851 Applications with the CPUC since the commencement of its Chapter 11 case with respect to transactions which would be subject to PUC Section 851 if no bankruptcy case had been commenced, and PG&E's continued compliance with PUC Section 851 will not be affected by this Motion. The Motion simply requests this Court's authorization, to the extent required under the Bankruptcy Code, to allow PG&E to enter into a wide variety of real and personal property transactions prior to the effective date of a confirmed plan of reorganization in this Chapter 11 case. To the extent that PG&E determines that, absent bankruptcy, it would be required to apply to the CPUC for approval of a transaction under PUC Section 851, PG&E prior to the effective date of a confirmed plan of reorganization in this case will continue to seek such approval from the CPUC, except as stated in the next sentence. If, under particular circumstances, PG&E believes that this Court should authorize a transaction without CPUC

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[5]To avoid confusion, PG&E notes that property that might be identified as "surplus property" for sale or other disposition as described above is not necessarily the flip side of "necessary or useful" for purposes of PUC Section 851. That is to say, a property for technical reasons may fall within PUC interpretations of "necessary or useful" even though it is identified by PG&E as "surplus property" that PG&E desires to sell or otherwise dispose of. Neither the Court nor interested parties need be concerned about this seeming anomaly, since as clearly stated herein, PG&E will continue to comply with the requirements of Section 851 absent further order of this Court.

approval where such approval would otherwise be required under state law, PG&E will specifically request Bankruptcy Court authorization to so proceed, and PG&E will not proceed with the transaction absent such a Bankruptcy Court order specifically authorizing PG&E to proceed with the transaction.

EFFECT OF THE AUTHORIZATIONS SOUGHT BY THE MOTION ON LIEN OR CO-OWNERSHIP INTERESTS

31. As indicated above, with one exception discussed immediately below, PG&E by the Motion does not seek to circumscribe or affect any specific protections afforded any lienholder, co-interest owner or the like under Section 363 that may be applicable with respect to any specific property PG&E might seek to sell. Thus, for example, notwithstanding that a particular proposed sale transaction is under the dollar threshold triggering Committee review or Bankruptcy Court approval under the Motion, if there were a lien on such property and PG&E sought to sell the property free and clear of the lien, Section 363(f) (and any Federal or local Bankruptcy Rule pertaining thereto) would remain fully applicable, and PG&E would still be obligated to comply with Section 363(f) and any applicable Bankruptcy Rule. Similarly, as another example, if there were a co-owner of a property PG&E otherwise was authorized to sell without Committee review or Court approval pursuant to the Motion, and PG&E sought to sell the entire property, Section 363(h) (and any Federal or local Bankruptcy Rule pertaining thereto) would remain fully applicable, and PG&E would still be required to comply with Section 363(h) and any applicable Bankruptcy Rule.

32. The one exception to the foregoing concerns the lien on substantially all assets of the estate in favor of BNY Western Trust Company in its capacity as the successor trustee (the "Trustee") under that certain Indenture dated December 1, 1920 and related documentation, as amended to date (collectively, the "Indenture"), which is the subject of that certain "Stipulation (I) Authorizing and Restricting Use of Cash Collateral Pursuant to 11 U.S.C. §363 and Bankruptcy Rule 4001 and (II) Granting Adequate Protection Pursuant to 11 U.S.C. §§361 and 363" entered into between PG&E and the Trustee on May 9, 2001

(the "Cash Collateral Stipulation") and approved by the Bankruptcy Court by its Order thereon dated the same date. As part of the Cash Collateral Stipulation, the Trustee and PG&E agreed as follows:

> Except for transactions in the ordinary course of its business or except as otherwise permitted in the Indenture or authorized by an order of this Court (after notice to the Indenture Trustee), the Debtor shall not sell, transfer, lease, encumber or otherwise dispose of any Pre-Petition Collateral or Post-Petition Collateral without the prior written consent of the Indenture Trustee, and no such consent shall ever be implied from any other action, inaction or acquiescence by the Indenture Trustee or any Bondholder. The Indenture Trustee expressly authorizes the Debtor to sell assets pursuant to Section 363(f) of the Bankruptcy Code free and clear of any liens, claims or encumbrances of the Indenture Trustee to the extent such sales are permitted by the Indenture and so long as the liens, claims or encumbrances of the Indenture Trustee shall attach to the proceeds of such sales with the same validity and priority as the liens, claims and encumbrances of the Indenture Trustee in the assets subject to such sales, until the disposition of such proceeds in accordance with the Indenture and applicable bankruptcy law." Cash Collateral Stipulation ¶13.

33. Against the backdrop of the Cash Collateral Stipulation, and in order to further the principal purpose of the Motion (viz., to enable PG&E to proceed with routine transactions within the dollar parameters specified herein without the need for a separate motion and a separate Bankruptcy Court order for each such transaction), PG&E has agreed with the Trustee as follows with respect to sales of PG&E property subject to the lien under the Indenture and incorporated such agreement into the Motion:

(a) For each and any such sale transaction that, under the criteria set forth in the Motion, does not need to be the subject of a separate motion filed with the Bankruptcy Court or approved by the Bankruptcy Court (i.e., any sale transaction for a sales price of $5 million or less, or for a sales price of between $5 million and $50 million if the Committee has not objected to the sale within the time specified in the Motion for objecting), PG&E will comply with all applicable provisions of the Indenture that are a condition to obtaining the release of the lien of the Trustee on the applicable property, all net proceeds of any and each such sale (i.e., the gross proceeds of sale minus the direct costs of sale) will be paid over to the Trustee to be held by the Trustee in a segregated account as cash collateral for PG&E's obligations under the

Indenture, and such proceeds shall not be released to PG&E unless and until either (i) the Trustee has consented in writing to the release of such proceeds to PG&E, or (ii) the Bankruptcy Court orders the Trustee to release such proceeds following a noticed motion and hearing thereon, any such motion to be served upon the Trustee no less than 28 days prior to the scheduled hearing date. In connection with any such motion, PG&E reserves the right to argue that the Trustee is required pursuant to the applicable provisions of the Indenture to release some or all of the net proceeds then held by the Trustee as cash collateral, and/or that the Trustee's interest in PG&E's property is adequately protected without regard to such cash collateral; and the Trustee reserves the right to oppose any or all such arguments and to make any and all adequate protection arguments that it deems appropriate. Accordingly, with this arrangement incorporated into this Motion, PG&E by the Motion proposes that PG&E will not be required to bring a separate motion under Section 363(f) or any applicable local or Federal Bankruptcy Rule in order to consummate, free and clear of the Trustee's lien under the Indenture, a sale of any PG&E property that does not require a separate motion or Bankruptcy Court approval under the criteria set forth in the Motion.

(b) For each and any sale transaction that, under the criteria set forth in the Motion, must be the subject of a separate motion filed with the Bankruptcy Court and approved by the Bankruptcy Court (i.e., any sale transaction for a sales price of $50 million or more, or for a sales price of between $5 million and $50 million if the Committee has objected to the sale within the time specified in the Motion for objecting), PG&E will bring a motion for a sale free and clear of the lien of the Indenture pursuant to Section 363(f) of the Bankruptcy Code and any applicable local or Federal Bankruptcy Rules, and the issue of the disposition of the net proceeds of any such sale shall be addressed by the parties and the Court in connection with the resolution of such motion, with both PG&E and the Trustee reserving all rights to make any arguments and take any positions under applicable law.

34. In sum, to the extent the Motion authorizes PG&E to enter into and consummate a

specific transaction pursuant to Section 363(b) or (c) without any additional motion or Bankruptcy Court approval, PG&E will not be required to bring a motion under Section 363(f) or any applicable local or Federal Bankruptcy Rule in order to enter into or consummate such sale free and clear of the lien of the Trustee, provided that the net proceeds of each such sale are tendered to the Trustee to hold as cash collateral pending either (i) the Trustee's written consent to release such proceeds, or (ii) a Bankruptcy Court order requiring the Trustee to release such proceeds after a noticed motion served upon the Trustee. Conversely, to the extent that under the criteria set forth in the Motion a proposed sale requires a further motion by PG&E and a Bankruptcy Court order approving such sale, the Motion does not provide for a sale free and clear of the lien of the Indenture and therefore does not address the disposition of the net proceeds of such a sale. Rather, if PG&E wishes such a sale to be free and clear of the lien of the Indenture, PG&E as part of such further motion will move pursuant to Section 363(f) to sell the property free and clear of the lien of the Indenture, and the disposition of the net proceeds of such a sale will necessarily be dealt with in the Bankruptcy Court's ruling on such a motion.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct, and that this Declaration is executed this 4th day of September, 2001, at San Francisco, California

Linda E. Chinn

LINDA E. CHINN

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HOWARD RICE NEMEROVSKI CANADY FALK & RABKIN A Professional Corporation

EXHIBIT A

CRITERIA FOR REAL/PERSONAL PROPERTY TRANSACTIONS

TRANSACTION TYPE	REVIEWING ENTITY		
	PG&E only	**Creditors' Committee**	**Bankruptcy Judge**
Sale of PG&E Property			
1. Surplus Property	1. Sale Price ≤ $5 million and ≥ 80% FMV[1]	1. Sale Price > $5 million but < $50 million, or 2. Sale Price < 80% FMV	Sale Price ≥ $50 million
2. Timber Harvest Program	All sales	NA	NA
3. Operating Property: •Distribution Facility Sales -Single Customer -Multiple Customer •Streetlight Sales	1. Sale Price ≤ $2 million and ≥ 80% FMV	1. Sale Price > $2 million but < $50 million, or 2. Sale Price < 80% FMV	Sale Price ≥ $50 million
4. Eminent Domain Actions/Settlements	1. Sale Price ≤ $5 million and ≥ 80% FMV	1. Sale Price > $5 million but < $50 million, or 2. Sale Price < 80% FMV	Sale Price ≥ $50 million
5. Easements	1. Sale Price ≤ $100,000 (provided that aggregate revenue from easement sale transactions do not exceed $500,000 in calendar year)	1. Sale Price > $100,000 but < $500,000, or 2. Annual revenue from all easement sales > $500,000 in aggregate	1. Sale Price ≥ $500,000, or 2. Annual revenue from all easement sales > $1 million in aggregate
Non-Telecommunications Leases, Licenses and Permits for Use of PG&E Property			
1. Grazing/Agricultural 2. Recreational 3. Residential	1. In any specific transaction, revenue ≤ $500,000 annually and < $3 million in aggregate over life of such transaction	1. In any specific transaction, revenue > $500,000 but < $1 million annually, or 2. In any specific transaction, revenue > $3 million but < $7 million in aggregate over life of such transaction (not including any extension option)	1. In any specific transaction, revenue ≥ $1 million annually, or 2. In any specific transaction, revenue ≥ $7 million in aggregate over life of such transaction (not including any extension option)
4. Commercial/ Industrial 5. Peaker/ Generation	1. In any specific transaction revenue ≤ $1 million annually and < $10 million in aggregate over life of such transaction	1. In any specific transaction, revenue > $1 million but < $10 million annually, or 2. In any specific transaction, revenue > $10 million but < $25 million in aggregate over life of such transaction (not including any extension option)	1. In any specific transaction, revenue ≥ $10 million annually, or 2. In any specific transaction, revenue ≥ $25 million in aggregate over life of such transaction (not including any extension option)

[1] FMV (Fair Market Value) is defined as either appraised value or value established through competitive bidding.

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EXHIBIT A

Telecommunications Leases, Licenses, Permits and Joint Pole Agreements for Use of PG&E Property			
1. Telecommunications - *Transmission* - *Distribution* 2. Towers 3. Telecom. Centers on Buildings	1. In any specific transaction, revenue ≤ $1 million annually and ≤ $10 million in aggregate over life of such transaction	1. In any specific transaction, revenue > $1 million but < $10 million annually, or 2. In any specific transaction, revenue > $10 million but < $25 million in aggregate over life of such transaction (not including any extension option)	1. In any specific transaction, revenue ≥ $10 million annually, or 2. In any specific transaction, revenue ≥ $25 million in aggregate over life of such transaction (not including any extension option)
Acquisition or Longer Term (Capital) Lease for Use of 3rd Party Property			
See "Capital Projects Expenditure Criteria"	NA	NA	NA
Leases, Licenses and Permits for PG&E Use of 3rd Party Property			
1. Office Leases 2. Federal Land Use Permits 3. Railroad Crossing Permits 4. Site Access Permits	1. In any specific transaction, payments ≤ $1 million annually, and ≤ $10 million in aggregate (not including any extension option)	1. In any specific transaction, payments > $1 million but < $10 million annually, or 2. In any specific transaction, payments > $10 million but < $25 million in aggregate over life of such transaction (not including any extension option)	1. In any specific transaction, payments ≥ $10 million annually, or 2. In any specific transaction, payments ≥ $25 million in aggregate over life of such transaction (not including any extension option)
Donations of Personal Property			
1. Personal Property	1. Any donation to a charitable, non-profit or government entity, provided that after giving effect to such donation, the aggregate residual value[2] of all donations in such calendar year ≤ $500,000	N/A	1. Any donation to a charitable, non-profit or government entity if, after giving effect to such donation, the aggregate residual value of all donations in such calendar year > $500,000

[2] Residual value is defined as the sales price that PG&E estimates it could obtain if the subject property were sold in an "AS IS" condition through PG&E's conventional channels for disposing of that type of used property.