

50-275/323

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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

No. 01 30923 DM

Chapter 11 Case

Date: December 19, 2001

Time: 9:30 a.m.

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

DECLARATION OF RAYMOND X. WELCH IN SUPPORT OF DEBTOR'S MOTION
FOR (1) AUTHORITY TO COMPROMISE CLAIMS DUE ESTATE BY SEMPRA
ENERGY TRADING CORPORATION AND SEMPRA ENERGY CORPORATION; (2)
AUTHORITY TO ENTER INTO MASTER GAS AGREEMENT; AND (3) APPROVAL
OF PROVISIONS OF MASTER GAS AGREEMENT MODIFYING AUTOMATIC STAY

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1 I, Raymond X. Welch, declare that:

2 1. I have been employed by Pacific Gas and Electric Company, the debtor and
3 debtor in possession in the above-referenced Chapter 11 bankruptcy case ("PG&E" or
4 "Debtor"), for the past ten years. My current position is that of Gas Portfolio Manager, in
5 PG&E's Gas Procurement Department, a position I have held for the past eight years. The
6 Gas Procurement Department buys natural gas for delivery to PG&E's core customers—
7 primarily residential and small business gas users. I make this declaration from personal
8 knowledge and could, if called as a witness, competently testify to the matters set forth
9 herein.

10 2. I make this declaration in support of PG&E's Motion for (1) Authority to
11 Compromise Claims Due Estate by Sempra Energy Trading Corporation ("SET") and
12 Sempra Energy Corporation ("Sempra Corp.") (collectively "Sempra"); (2) Authority to
13 Enter into Master Gas Agreement; and (3) Approval of Provisions of Master Gas Agreement
14 Modifying Automatic Stay (the "Motion"). In my capacity as Gas Portfolio Manager, I am
15 personally responsible for the procurement of gas supplies by PG&E. More particularly, I
16 am also familiar with the history of PG&E's relationship with SET with which PG&E
17 proposes to contract.

18 3. Prior to the commencement of this bankruptcy case, PG&E and SET were
19 parties to a Master Gas Purchase and Sales Agreement executed by PG&E on June 2, 1999
20 (the "MGPSA"). A true and correct copy of the MGPSA is attached to the Declaration of
21 David W. Anderson filed herewith, as Exhibit 2 to the Settlement Agreement and General
22 Release (the "Agreement"). The Agreement is attached to the Anderson Declaration as
23 Exhibit A.

24 4. Until mid-January 2001, when disputes developed between SET and PG&E,
25 PG&E regularly traded gas with SET pursuant to the MGPSA in order to provide service to
26 PG&E's core customers. PG&E's financial condition deteriorated dramatically in the latter
27 part of the year 2000. Due to this deterioration, Sempra purported to terminate the MGPSA
28

1 by letter as of January 18, 2001. Many of the details of the termination and related actions
2 were in dispute between SET and PG&E.

3 5. As part of the proposed compromise of PG&E's various disputes with SET
4 and Sempra as set out in the Agreement and subject to the approval of this Court, SET and
5 PG&E have agreed to enter into a New Master Gas Agreement ("NMGA"). Agreement at
6 ¶6.

7 6. The basic terms of the proposed NMGA are substantially set out in paragraph
8 6 and Exhibit 9 (containing the Term Sheet) of the Agreement. Otherwise, the terms of the
9 NMGA will be substantially similar to the previous MGPSA. In my opinion, the pricing
10 terms are reasonable for both parties.

11 7. The main difference between the previous MGPSA and the proposed NMGA
12 lies in the payment terms. The proposed NMGA Term Sheet (Exhibit 9 to the Agreement)
13 provides for PG&E to prepay for baseload gas supplies (the amount of gas to be delivered by
14 SET at a firm volume per day to PG&E over the course of a month). The proposed NMGA
15 Term Sheet also provides that SET has no obligation to provide monthly gas in a month
16 where there has been no prepayment. It also provides for a return to the industry standard
17 payment schedule when PG&E is rated BBB- or higher by Standard & Poor. Exhibit 9 of
18 the Agreement at 1. For purchases made on a daily basis (i.e., "swing" gas, which refers to
19 incidental gas purchases used to cover fluctuations in daily demand, due to, for example,
20 changing weather conditions), SET has agreed to provide a \$10 million line of credit,
21 regarding which payment is due the following month under industry standard terms.

22 8. Sound business justifications exist for PG&E to enter into the proposed
23 NMGA. The proposed NMGA is a significant agreement for PG&E's Core Procurement
24 department. The proposed NMGA represents 6 percent of Core Procurement's entire gas
25 requirements for the next 12 months and assists PG&E in ensuring a reliable supply of core
26 gas for PG&E customers, particularly over the upcoming winter months. The price provided
27 for in the proposed NMGA is fair and reasonable.

28 I declare under penalty of perjury under the laws of the State of California that
WELCH DECL. ISO MOTION FOR AUTH TO COMPROMISE CLAIM AGAINST SEMPRA

1 the foregoing is true and correct, and that this declaration was executed this 18 day of
2 November, 2001, in San Francisco, California.

3
4 By: Raymond X. Welch
RAYMOND X. WELCH

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HOWARD
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