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PACIFIC GAS AND ELECTRIC COMPANY

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

Case No. 01 30923 DM
Chapter 11 Case
Date: March 25, 2002
Time: 9:30 a.m.
Place: 235 Pine Street, 22nd Floor
San Francisco, California

DECLARATION OF KEVIN J. DOWD IN SUPPORT OF MOTION FOR
ORDER AUTHORIZING DEBTOR TO PAY CERTAIN CATEGORIES OF
PRE-PETITION CLAIMS

ADD1

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1 I, Kevin J. Dowd, declare as follows:

2 1. I am one of the managers of the groups of employees dealing with the analysis
3 and resolution of claims asserted against the Pacific Gas and Electric Company ("PG&E")
4 bankruptcy estate. I make this Declaration based upon my personal knowledge of PG&E's
5 general operations, upon my review of PG&E's records concerning the matters stated herein,
6 and upon information provided to me by consultants employed by PG&E to assist in the
7 examination of proofs of claim filed in this case. If called as a witness, I could and would
8 testify competently to the facts stated herein.

9 2. I make this Declaration in support of PG&E's Motion for an order authorizing
10 PG&E to pay categories of pre-petition claims, namely (1) allowed claims in the amount of
11 \$5,000 or less; (2) valid mechanics' lien claims; and (3) valid reclamation claims, on the
12 grounds set forth herein (the "Motion").

13 3. Over 13,000 proofs of claim have been filed in PG&E's bankruptcy case, in
14 an aggregate amount of approximately \$44 billion.¹ Almost a third of all proofs of claim
15 filed in this case seek amounts equal to or less than \$5,000 (the "Small Claims").² PG&E
16 estimates that 4,124 of the total filed claims are in this category. Many of the claimants who
17 filed Small Claims are individuals or small businesses. Typical of the claimants in this
18 category are trade creditors with claims for goods or services provided to PG&E and
19 customers seeking reimbursement for damages suffered to personal property (such as
20 appliances) due to, for example, power outages or surges.

21 4. While the Small Claims represent a relatively large number of filed claims,
22 such claims represent only a small percentage of the total dollar amount of claims filed in the
23 case. The Small Claims represent approximately \$6.7 million, or about 0.02%, of the total

24 ¹The Court has previously disallowed the claims of Baldwin & Associates and Wayne
25 Roberts filed herein, in the aggregate amount of \$9 billion.

26 ²PG&E has designated \$5,000 as the threshold for claims to be paid on the basis that, at
27 this dollar amount, the largest number of claims are resolved for the least total dollar cost to
28 the estate. If the dollar threshold is raised to a higher amount, payment of the claims would
result in diminishing returns to the estate—i.e., the number of claims resolved would not
increase proportionately in relation to the cost.

1 dollar amount of the remaining claims filed in this case.³

2 5. There are approximately 50 claims asserting mechanics' liens filed against the
3 estate, totaling \$10.2 million. These claims represent a relatively small percentage of the
4 total claims filed against the estate. PG&E's examination of these claims is not yet
5 complete. However, the amount that will be required to satisfy these claims is no more than
6 (and probably less than) \$10.2 million.

7 6. Certain sellers of goods have filed reclamation claims to seek return of goods
8 delivered to PG&E immediately prior to or shortly after the filing of its Chapter 11 petition.
9 Approximately 50 such claims have been filed against the estate, aggregating approximately
10 \$5.5 million.⁴ This category of claims represents less than 0.02% of the dollar amount of the
11 remaining claims against the estate.

12 7. If the Court grants the Motion, PG&E intends to pay all undisputed claims of
13 \$5,000 or less, as well as valid reclamation and mechanics' lien claims, on or before July 31,
14 2002, together with post-petition interest at the Federal Judgment Rate in effect on April 6,
15 2001 (the date of the filing of PG&E's Chapter 11 petition), or 4.19%, accrued on the
16 allowed amount of such claims from April 6, 2001 through June 30, 2002. With respect to
17 disputed claims, upon the resolution of such claims, either by Court order or settlement,
18 PG&E intends to pay the allowed amount of those claims, plus interest accrued at the
19 Federal Judgment Rate (4.19%) from April 6, 2001 through the date of payment. Such
20 payments would be made on a monthly basis from and after August 1, 2002, with respect to
21 those claims that have been resolved during the prior (i.e., claims that are resolved in July
22 2002 would be paid in August 2002; claims resolved in August 2002 would be paid in

23 ³This Motion generally refers to claims that have been filed against the Debtor
24 pursuant to proofs of claim. However, PG&E believes that the filed claims significantly
25 overstate PG&E's liability. In fact, PG&E's analysis shows that, of the Small Claims filed
26 against the estate, more than 10% are duplicate or late-filed claims. PG&E believes that its
27 Amended Schedules filed herein present a far more accurate picture of PG&E's liability for
28 pre-petition claims. Scheduled claims in amounts of \$5,000 or less represent 70% of all
scheduled claims. PG&E anticipates that, in reality, it will cost \$4.7 million to satisfy the
Small Claims.

⁴One claim for approximately \$1 million has been withdrawn.

1 September 2002, and so on).

2 8. PG&E will be able to resolve the Small Claims, the mechanics' lien claims
3 and the reclamation claims described above by paying no more than (and probably
4 substantially less than) \$22.4 million in total. PG&E is solvent and has the cash on hand to
5 pay these claims.⁵ The authorization sought by PG&E in this Motion provides significant
6 benefits to PG&E: it would reduce post-petition interest costs and streamline the
7 administration of the claims resolution process, thereby allowing PG&E to focus those
8 resources involved in the claims process on larger, more complex claims. Finally, to the
9 extent that the Court grants the Interest Payment Motion⁶, the estate would be subject to
10 administrative burden and costs associated with issuing thousands of small checks for
11 periodic interest payments to these claimants, which would be relieved by granting the
12 Motion herein.

13 I declare under penalty of perjury under the laws of the United States of America
14 that the foregoing is true and correct. Executed this 5th day of March 2002, at San
15 Francisco, California.

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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17 By: Kevin J. Dowd
KEVIN J. DOWD

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⁵As reflected in PG&E's December Monthly Operating Report, PG&E had more than \$4.2 billion in cash reserves as of December 31, 2001.

⁶The "Motion by Debtor for Order (A) Approving Settlement and Support Agreement between Plan Proponents and Senior Debtholders, (B) Authorizing Payment of Pre- and Post-Petition Interest to All Holders of Allowed Claims, (C) Authorizing Payment of Fees and Expenses of Indenture Trustees and Paying Agents and (D) Authorizing Debtor to Enter Into Similar Settlements" (the "Interest Payment Motion") is set for hearing at the same date and time as this Motion.