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ATTORNEYS FOR THE SENIOR DEBTHOLDERS

**UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION**

| | | |
|-----------------------------------|---|---------------------------|
| IN RE: |) | |
| |) | |
| PACIFIC GAS AND ELECTRIC COMPANY, |) | Case No. 01-30923 DM |
| a California corporation, |) | |
| Debtor. |) | Chapter 11 Case |
| |) | |
| |) | Date: March 25, 2002 |
| |) | Time: 9:30 a.m. |
| |) | Place: 235 Pine Street |
| Federal I.D. No. 94-0742640 |) | San Francisco, California |
| |) | |

DECLARATION OF RAYMOND G. KENNEDY IN FURTHERANCE OF THE SENIOR DEBTHOLDERS' STATEMENT IN SUPPORT OF PACIFIC GAS AND ELECTRIC COMPANY'S MOTION FOR ORDER (A) APPROVING SETTLEMENT AND SUPPORT AGREEMENT BY AND AMONG PLAN PROPONENTS AND SENIOR DEBTHOLDERS, (B) AUTHORIZING PAYMENT OF PRE- AND POST-PETITION INTEREST TO HOLDERS OF UNDISPUTED CLAIMS IN CERTAIN CLASSES, (C) AUTHORIZING PAYMENT OF FEES AND EXPENSES OF INDENTURE TRUSTEES AND PAYING AGENTS AND (D) AUTHORIZING DEBTOR TO ENTER INTO SIMILAR SETTLEMENTS

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2 I, Raymond G. Kennedy, declare as follows:

3 1. I am a Managing Director of Pacific Investment Management Co. LLC
4 (“PIMCO”), and maintain an office at 840 Newport Center Drive, Suite 300, Newport Beach,
5 CA 92660. This Declaration is based on my personal knowledge of the facts stated herein. If
6 called as a witness, I could and would testify competently to the following facts.

7 2. I make this Declaration in furtherance of the Senior Debtholders’ Statement in
8 Support of Pacific Gas and Electric Company’s Motion for Order (A) Approving Settlement and
9 Support Agreement By and Among Plan Proponents and Senior Debtholders, (B) Authorizing
10 Payment of Pre- and Post-Petition interest to Holders of Undisputed Claims in Certain Classes,
11 (C) Authorizing Payment of Fees and Expenses of Indenture Trustees and Paying Agents and (D)
12 Authorizing Debtor to Enter into Similar Settlements.

13 3. PIMCO is one of the world’s largest investment management companies,
14 managing assets of over \$253.8 billion for governments, foundations, pension plans, institutions
15 and other investors. I am an experienced professional investment manager. I have over 15 years
16 of investment management experience. I serve as a Managing Director and portfolio manager
17 with responsibility for management of funds and accounts investing in debt securities and
18 obligations, corporate fixed income obligations, corporate fixed income securities, bank loans,
19 and structured debt obligations. I hold a bachelor’s degree from Stanford University and an
20 MBA from the Anderson Graduate School of Management at the University of California, Los
21 Angeles.

22 4. PIMCO routinely purchases fixed-income securities that are consistent with the
23 investment strategies of PIMCO’s clients. In making the decision to purchase a given security,
24 PIMCO considers, among other things, the creditworthiness of the issuer, the contractual rate of
25 interest and the likelihood that the agreed-upon interest will be paid as promised.

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2 the California energy crisis based upon the representations by PG&E, supported by the CPUC,
3 that sufficient funds would be available to pay the securities at maturity and that the interest
4 payments would be made as scheduled. Those financial investors relied on the statements of
5 PG&E and CPUC regarding the availability of funds to pay the securities and had other uses
6 planned for the funds on and after November 2001. These institutions had to function without
7 the funds, while PG&E, which has indicated it is solvent, had the benefit of over \$4 billion in
8 cash, most of which it presently is holding for the sole purpose of paying debt service and debt
9 that has matured or is otherwise due.

10 11. PIMCO has filed Proofs of Claim in the above matter. PIMCO is aware of the
11 proposed treatment accorded the Notes in the Second Amended Plan and Disclosure Statement
12 filed by the Plan Proponents. PIMCO is also aware of the proposed treatment of the Notes in the
13 term sheet for a Plan proposed publicly by the CPUC.

14 12. PIMCO has been involved in the negotiation of the Settlement Agreement and
15 strongly supports the Settlement Agreement as the best alternative currently available for Senior
16 Debtholders. The Settlement Agreement is desirable because it fixes the rate to be paid on the
17 Notes at the contract rate in effect as of the Petition Date and protects investors from risks
18 inherent in delays in the reorganization process by allowing for increases in interest rates if the
19 Plan does not go effective by certain dates. Moreover, it seeks to defray the fees and costs of all
20 entitled indenture trustees and paying agents and otherwise ameliorate the damage suffered by
21 investors by reason of the cessation of interest payments since the bankruptcy filing. PG&E is
22 solvent and will be required to pay the interest on the Notes in order to emerge from bankruptcy.
23 PG&E has available cash to make the payments, the payments now will avoid negative arbitrage
24 as discussed in the Declaration of Kent M. Harvey filed on March 5, 2002 in support of PG&E's
25 motion to approve the Settlement Agreement (which PG&E claims is as much as \$35 million
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2 annually) and will restore the confidence of financial investors such as PIMCO in the reliability
3 of PG&E as a credit.

4 13. The terms of the Settlement Agreement will be available to all general unsecured
5 creditors similarly situated and therefore will not favor any individual creditors of the Debtor.

6 14. The capital markets have been distressed by the bankruptcy filing by PG&E. That
7 is because PG&E has been perceived as a solvent entity. In the absence of an effort to build
8 capital market acceptance while the Debtor is still in bankruptcy, PG&E may have difficulty
9 establishing capital market credibility post-bankruptcy. Normally, financial investors would
10 avoid the securities of a financially troubled debtor in the future or demand a significant interest
11 rate increase over market to reflect the risk of nonpayment. The capital markets will generally
12 regard court approval of the Settlement Agreement as indicative of PG&E's intent to make
13 capital market creditability and confidence a priority which is important to PG&E's future and to
14 comply with financial covenants by which it is bound. Evidence of such intent would restore
15 confidence in the capital markets that PG&E can be relied upon, once again, for consistent,
16 continued compliance with its obligations. I believe approval of the Settlement Agreement will
17 restore investors' confidence in PG&E's financial integrity which confidence will ultimately
18 reduce PG&E's cost of borrowing. This enhanced reputation in the capital markets and reduced
19 cost of borrowing will benefit PG&E, the Estate and those who deal with PG&E, such as its rate
20 paying customers.

21 15. Based upon my experience, I believe that continued failure to make timely
22 principal and interest payments to PIMCO and other investors during the pendency of this case
23 may jeopardize the ability of PG&E to obtain financing post-confirmation at attractive rates.
24 This is particularly true because, while PG&E's creditors have been faced with Chapter 11,
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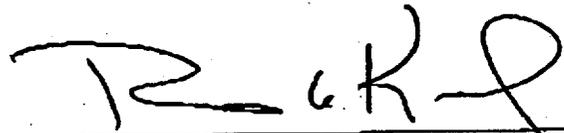
1 Southern California Edison creditors have benefited from that corporation having now cured its
2 defaults by making payments on past due amounts owed.

3 16. As part of my duties, I frequently evaluate Chapter 11 plans and the proposed
4 treatment of creditors under those plans. It is my opinion that the treatment of the unsecured
5 creditors of PG&E as envisioned by the Settlement Agreement is appropriate and in the best
6 interests of the Estate.

7 17. PIMCO offers this Declaration solely in support of its own position. The
8 foregoing does not and is not intended to represent the position of the Official Committee of
9 Unsecured Creditors Committee ("*Committee*"), of which PIMCO is a member, or any member
10 of that Committee and is a statement made by PIMCO in its capacity as an individual creditor
11 and not as member of the Committee.

12 I declare under penalty of perjury under the laws of the United States of America and the
13 State of California that the foregoing is true and correct. Executed this 18th day of March, 2002
14 at Newport Beach, California.

15 DATED: MARCH 18, 2002.

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18 _____
19 Raymond G. Kennedy, Managing Director

