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8 ATTORNEYS FOR THE SENIOR DEBTHOLDERS

9  
10 UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA  
11 SAN FRANCISCO DIVISION

12 IN RE: )  
13 )  
PACIFIC GAS AND ELECTRIC COMPANY, ) Case No. 01-30923 DM  
14 a California corporation, )  
Debtor. ) Chapter 11 Case  
15 )  
Date: March 25, 2002  
16 ) Time: 9:30 a.m.  
Place: 235 Pine Street  
Federal I.D. No. 94-0742640 ) San Francisco, California  
17 )

18 **DECLARATION OF PAUL L. BENDER IN FURTHERANCE OF THE SENIOR DEBTHOLDERS'**  
19 **STATEMENT IN SUPPORT OF PACIFIC GAS AND ELECTRIC COMPANY'S MOTION FOR**  
20 **ORDER (A) APPROVING SETTLEMENT AND SUPPORT AGREEMENT BY AND AMONG PLAN**  
21 **PROponents AND SENIOR DEBTHOLDERS, (B) AUTHORIZING PAYMENT OF PRE- AND**  
22 **POST-PETITION INTEREST TO HOLDERS OF UNDISPUTED CLAIMS IN CERTAIN CLASSES,**  
23 **(C) AUTHORIZING PAYMENT OF FEES AND EXPENSES OF INDENTURE TRUSTEES AND**  
24 **PAYING AGENTS AND (D) AUTHORIZING DEBTOR TO ENTER INTO**  
25 **SIMILAR SETTLEMENTS**

26 *Paul Add: Rds Oge Paul Bender*

1 I, Paul L. Bender, declare as follows:

2 1. I am the Chief Financial Officer of the District of Columbia Water and Sewer  
3 Authority ("DCWASA"), an independent agency of the District of Columbia government that  
4 provides drinking water, wastewater collection and treatment to residential, commercial and  
5 governmental customers in the District of Columbia and the surrounding jurisdictions of  
6 Montgomery County, Maryland, Prince George's County, Maryland and Fairfax County,  
7 Virginia. I maintain an office at 5000 Overlook Avenue, S.W., Washington, D.C. 20032. This  
8 Declaration is based on my personal knowledge of the facts stated herein. If called as a witness,  
9 I could and would testify competently to the following facts.

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

16 3. The Chief Financial Officer or designee of DCWASA invests its funds so that  
17 they will be available to meet the needs of DCWASA. From time to time, DCWASA has as  
18 much as \$125 million under investment. I have been Chief Financial Officer of DCWASA since  
19 July 1997. For eleven years prior to this, I was Deputy Director of the City of Richmond,  
20 Virginia's Public Utility Department. I hold an MBA from Boston University and am a Certified  
21 Public Accountant. My undergraduate major is in Psychology from Goshen College, Goshen,  
22 Indiana and I attended the American University of Beirut.

23 4. The primary investment objectives, in order of priority, of DCWASA are safety,  
24 liquidity, return on investment and diversity. Specifically, with respect to liquidity, the  
25 investment portfolio is to be managed at all times with sufficient liquidity to meet all daily and  
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1 seasonal needs as well as special projects and other operational requirements either known or  
2 which might reasonably be anticipated. Under its Cash Management and Investment Policy,  
3 permissible investments with respect to commercial paper are limited to "U.S. Dollar  
4 denominated Commercial Paper that does not exceed 180 days, issued by an entity incorporated  
5 in the U.S. and rated at least A-1 by Standard & Poor's and P-1 by Moody's Investors Services,  
6 Inc.

7 5. Prior to the Petition Date,<sup>1</sup> DCWASA purchased \$5 million in commercial paper  
8 (the "*Commercial Paper*") issued by the Debtor, Pacific Gas and Electric Company ("*PG&E*").

9 6. DCWASA purchased such Commercial Paper based upon the understanding that  
10 the Commercial Paper was investment grade (A-1, P-1) paper of a utility offering superior risk-  
11 adjusted yields. The capital markets generally consider securities such as the Commercial Paper  
12 to be very secure investments appropriate for governmental bodies, pension funds and the like.

13 7. Further, DCWASA purchased such Commercial Paper in reliance on  
14 representations by PG&E that payment on the Commercial Paper would be made in a timely  
15 manner. The assumption that Commercial Paper would be paid as agreed to by PG&E in turn  
16 influenced other investment decisions made by DCWASA for the funds it invests.

17 8. DCWASA understood that the issuance of the Commercial Paper was specifically  
18 approved, during an energy crisis, not only by the Board of Directors of PG&E, but also by the  
19 California Public Utility Commission ("*CPUC*") as a reasonable cost and an appropriate part of  
20 the rate base. This meant that there was a clear source of repayment for the Commercial Paper.

21 9. During the pendency of the case, it is my belief that PG&E has been able to amass  
22 large amounts of cash while valid obligations to governmental bodies and pension funds go  
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24 <sup>1</sup> Unless otherwise defined herein, all capitalized terms not defined herein shall have the same meaning  
25 ascribed to them in the Motion and Settlement Agreement or in the Second Amended Plan of  
26 Reorganization proposed by the Debtor and PG&E Corporation.

1 unpaid. As will be set forth below, this has created significant problems for the Senior  
2 Debtholders.

3 10. DCWASA purchased the Commercial Paper because it was a short-term  
4 investment that would enhance the liquidity of its portfolio. DCWASA provided capital to  
5 PG&E during the California energy crisis based upon the representations by PG&E that  
6 sufficient revolving credit facilities to provide commercial paper backup would be available to  
7 pay the securities at maturity. DCWASA relied on the statements of PG&E regarding the  
8 availability of revolving credit facilities to pay the securities and had other uses planned for the  
9 funds after maturity. DCWASA had to function without the funds, while PG&E, which has  
10 indicated it is solvent, had the benefit of over \$4 billion in cash, most of which it presently is  
11 holding for the sole purpose of paying debt service and debt that has matured or is otherwise due.

12 11. DCWASA has filed a Proof of Claim in the above matter and has been closely  
13 monitoring the proceedings. DCWASA is aware of the proposed treatment accorded the  
14 Commercial Paper in the Second Amended Plan and Disclosure Statement filed by the Plan  
15 Proponents. DCWASA is also aware of the proposed treatment of the Commercial Paper in term  
16 sheet for a Plan proposed by the CPUC.

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

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

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

22 15. Based upon my experience, I believe that continued failure to make timely  
23 payments to DSWASA and other investors during the pendency of this case will seriously  
24 jeopardize the ability of PG&E to obtain financing post-confirmation at attractive rates. This is  
25 particularly true because, while PG&E's creditors have been faced with Chapter 11, other  
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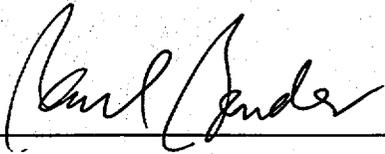
1 utilities in the market have been making their debt payments and even SoCal Edison is making or  
2 has made scheduled payments to its creditors.

3 16. It is my opinion that the treatment of the unsecured creditors of PG&E as  
4 envisioned by the Settlement Agreement is appropriate and in the best interests of the Estate.

5 17. DCWASA offers this Declaration solely in support of its own position.  
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1 I declare under penalty of perjury under the laws of the United States of America and the  
2 District of Columbia that the foregoing is true and correct. Executed this 14 day of March,  
3 2002 at Washington, D.C.

4 DATED: MARCH 14, 2002.

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