JAMES L. LOPES (No. 63678)
JANET A. NEXON (No. 104747)
JULIE B. LANDAU (No. 162038)
HOWARD, RICE, NEMEROVSKI, CANADY,
FALK & RABKIN
A Professional Corporation
Three Embarcadero Center, 7th Floor
San Francisco, California 94111-4065
Telephone: 415/434-1600
Facsimile: 415/217-5910

Attorneys for Debtor and Debtor in Possession
PACIFIC GAS AND ELECTRIC COMPANY

50-275
323

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	Case No. 01-30923 DM Chapter 11 Case Date: May 9, 2002 Time: 1:30 p.m. Place: 235 Pine Street, 22nd Floor San Francisco, California

HOWARD RICE NEMEROVSKI CANADY FALK & RABKIN
A Professional Corporation

DECLARATION OF MICHAEL SCHONHERR IN SUPPORT OF MOTION FOR ORDER AUTHORIZING PG&E TO INCUR AND PAY CERTAIN LAND-RELATED EXPENSES

Add Rids OGC Mail Center

A001

I, Michael Schonherr, declare:

1. I am a Manager in the Building and Land Services Department for Pacific Gas and Electric Company ("PG&E"), a position I have held since September 2001. I am responsible for, among other things, the separation of the Land and Land Rights (as defined below) necessary to implement PG&E's proposed Second Amended Plan of Reorganization (the "Plan"). I have worked in various managerial capacities for the Building and Land Services Department for over 14 years. I make this declaration in support of the Motion for Order Authorizing PG&E to Incur and Pay Certain Land-Related Expenses (the "Motion"). This Declaration is based on my personal knowledge, except where indicated otherwise. If called as a witness, I could and would testify competently to the facts stated herein.

2. PG&E is requesting authority to pay certain contractors who will assist with the preparation required for the transfer of PG&E's existing Land and Land Rights to the new entities ("New Entities") created under the Plan (the "Land Work"). The Land Work is necessary as PG&E holds a large portfolio of real estate assets, including approximately 250,000 acres of land, more than six million square feet of support service space (service centers, offices and warehouses) and hundreds of real property leases (collectively, the "Land"), along with thousands of related real property rights, including: rights-of-way and easements, prescriptive rights, possessory interests, unrecorded rights and other land-related agreements, and associated maps and drawings (collectively, the "Land Rights").

3. The Land Work relates to the ultimate transfer to the New Entities of the Land and Land Rights necessary for the New Entities to conduct their operations in full compliance with relevant laws, rules and regulations. Much of the Land Work to be performed, however, is also for general business purposes, including the maintenance and reconciliation of PG&E's real estate rights and records. Land rights analysis and reconciliation work is constant for a company such as PG&E with substantial real estate holdings and such work has been ongoing both pre-petition and post-petition. The transfer of the Land and Land Rights in connection with the Plan now requires an accelerated pace for this work.

HOWARD RICE NEMEROVSKI CANADY FALK & RABKIN
A Professional Corporation

4. PG&E has historically utilized real estate specialists to assist its internal real estate staff, such as title and survey specialists. Most of the contractors listed below have worked for PG&E and are familiar with PG&E's unique Land and Land Rights' issues; consequently, PG&E believes that these contractors are well qualified to perform the services necessary to assist with the Land Work. The following is a description of the two categories of Land Work to be performed and each contractor currently under contract with PG&E to perform the applicable Land Work (collectively, the "Contractors").[1] All of the Contractors will perform the work described at the direction of and under the supervision of PG&E.

5. Land and Land Rights Analysis and Reconciliation: This category of work includes contractors performing title work in connection with the review, analysis and reconciliation of all Land Rights, including field verification of information, assignment of the Land and Land Rights to the New Entities, and analyzing new and modified rights to be acquired. Contractors performing this work are as follows:

- *EDB Data Resources*
- *Phillip Longo*
- *Charles McClue*
- *Paragon Partners, Ltd.*
- *Kenneth Sorensen*
- *Willbanks Resources Corporation*

Specifically, the work to be performed by each of the foregoing contractors will include: (1) reviewing Land and Land Rights documents to determine: (a) the grantor and grantee information; (b) identifying the facility for which the Land or Land Right was obtained; (c) determining document dates and recording information, if applicable; (d) determining whether documents contain assignability provisions; and (e) determining whether documents contain any non-standard provisions; (2) evaluating the chain of title with respect to Land Rights in order to facilitate a complete and clear understanding of the

[1]PG&E also utilizes certain employees of Corestaff Services, Inc., a staffing agency, to assist its internal staff with project planning and coordination, data gathering and analysis, and database development and management in connection with the Land Work. The expenses for these services are also included in the Budget set forth in Paragraph 7 below.

HOWARD RICE NEMEROVSKI CANADY FALK & RABKIN
A Professional Corporation

Land Rights; and (3) generating pictorial records (on existing PG&E line drawings) by highlighting the specific locations of the Land and Land Rights covered by each document reviewed.

6. Land Surveying. This category of work includes land surveys, preparation of the deeds and maps related to the possible subdivision, lot line adjustments, and/or transfer of fee properties to the New Entities, performing the work necessary to ensure compliance with local rules and regulations, and preparation of easement reservations and new easement grants. More specifically, this work will include: (1) reviewing PG&E's records to ascertain the information required to develop recordable legal descriptions for all deeds and easements to be conveyed to the New Entities or to be reserved by PG&E; (2) evaluating the chain of title with respect to the Land (fee interests) in order to prepare clear descriptions, free from defects, for the conveyance of PG&E's interests in the Land; (3) generating exhibit drawings (maps) that delineate property and easement locations; (4) performing land surveys to collect the information necessary to subdivide or perform lot line adjustments for properties that will be divided between PG&E and the New Entities; and (5) preparing deeds and "Record of Survey Maps" pursuant to the California Subdivision Map Act, reflecting the proposed subdivision or lot line adjustments with respect to divided properties. The contractor performing this work is *Towill, Inc.*

7. PG&E is requesting approval to pay the Contractors for the Land Work in the amount of approximately $5.5 million (the "Budget"), beginning April 2002 and continuing to the Effective Date (as defined in the Plan) or such earlier date on which the transfers contemplated to the New Entities have been completed. Payments would be made by PG&E to the Contractors on a monthly basis as work is completed, based on monthly billings by the Contractors.

8. The Land Work is essential to the implementation of the Plan. Although the Plan is not yet confirmed, PG&E estimates that it will take up to 12 months to complete the Land Work necessary to transfer PG&E's extensive Land and Land Rights to the New Entities, as contemplated by the Plan. Therefore, given the volume of work and level of

HOWARD RICE NEMEROVSKI CANADY FALK & RABKIN
A Professional Corporation

detail and accuracy needed to satisfy recording and other requirements, the Land Work must be accelerated well in advance of confirmation of the Plan in order to assure a timely consummation.

9. In developing its strategy for handling the Land Work, PG&E has adopted a moderate approach in terms of balancing risks and costs. Specifically, PG&E contemplates undertaking a complete review of title and land rights only for those properties and entitlements that may become assets of the New Entities. PG&E does not intend to obtain title insurance in connection with any of the transfers to the New Entities. Thus, the goal is to handle the transactions in a manner that will effectively transfer the Land and Land Rights to the New Entities, thereby minimizing the potential for disputes and uncertainties arising post-separation, but without the certainty and costs associated with title insurance.

10. The Land Work will also provide value to PG&E whether or not the Plan is implemented. PG&E will benefit from the accelerated review and audit of its real property portfolio as this work will enable it to manage its Land and Land Rights more efficiently through enhanced understanding and improved organization of its records.

11. To the extent that subsequent events demonstrate that the transfers to the New Entities will not be necessary, the associated Land Work can be terminated immediately. PG&E's standard contractual provisions in place with the various contractors do not guarantee future work or any minimum amount of revenue. PG&E also maintains the right to terminate the contracts at any time without cause, in which case PG&E is liable only for work performed to the date of termination plus costs reasonably incurred by the contractor in terminating any work in progress.

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 12th day of April, 2002, at San Francisco, California.

Michael Schonherr

MICHAEL SCHONHERR

WD 041202/1-1419905/987625/v1

HOWARD RICE NEMEROVSKI CANADY BALK & RABKIN
A Professional Corporation