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8 PACIFIC GAS AND ELECTRIC COMPANY

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

12 In re

Case No. 01-30923 DM

13 PACIFIC GAS AND ELECTRIC
COMPANY, a California corporation,

Chapter 11 Case

14 Debtor.

Date: May 20, 2002

Time: 1:30 p.m.

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

15 Federal I.D. No. 94-0742640
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18 DECLARATION OF VALERIE LEWIS IN SUPPORT OF
19 MOTION FOR AUTHORIZATION TO INCUR AND PAY
20 BENEFIT PROGRAM EXPENSES
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DECLARATION OF VALERIE LEWIS

1 I, Valerie Lewis, declare:

2 1. I am a Benefits Manager for Pacific Gas and Electric Company ("PG&E"),
3 the debtor and debtor-in-possession in this Chapter 11 case. I am responsible for overseeing
4 the development of new benefit programs in connection with the implementation of PG&E's
5 proposed plan of reorganization (as amended from time to time, the "Plan"). This
6 declaration is submitted in support of PG&E's Motion for Authorization to Incur and Pay
7 Benefit Program Expenses (the "Motion"). Defined terms used herein shall have the
8 meanings set forth in the Motion. I make this declaration from personal knowledge and if
9 called as a witness, could and would testify competently to the matters set forth herein.

10 2. PG&E offers a wide array of health, welfare and retirement benefit
11 programs to employees and their dependents and domestic partners. These programs include
12 the following types of health benefits: medical, dental, vision, prescription drug, mental
13 health, alcohol and drug care, health care reimbursement accounts and dependent care
14 reimbursement accounts. In addition, PG&E offers the following benefits to its employees:
15 (i) time-off programs, including vacation, holiday and leave of absence; (ii) sick leave and
16 disability programs; (iii) life insurance; and (iv) retirement benefits, including pension plans
17 and retirement plans.

18 3. In addition to complying with applicable employment laws and also
19 providing competitive benefits in order to attract and retain employees, PG&E is under
20 contractual obligations to provide certain types and levels of benefits to thousands of
21 employees under the collective bargaining agreement (the "Collective Bargaining
22 Agreement") between PG&E and the International Brotherhood of Electrical Workers, Local
23 1245 (the "IBEW").

24 4. In order for the New Entities to hire the thousands of employees that will be
25 needed, new benefit programs must first be developed. The Plan provides that the benefit
26 programs to be offered by the New Entities will be comparable to the benefit programs
27 currently in place for PG&E's employees. In addition, for the approximately 2,000
28 employees who are covered by the Collective Bargaining Agreement and are expected to

1 transfer to one of the New Entities, PG&E is obligated to negotiate with the IBEW regarding
2 the benefits to be provided to these employees or to provide the same benefits as are
3 currently required under the Collective Bargaining Agreement. This is due to a successor
4 provision in the Collective Bargaining Agreement requiring that the New Entities assume the
5 existing agreement and recognize the IBEW as the employee's exclusive bargaining
6 representative.

7 5. Development of comparable benefit programs for the New Entities will
8 require benefit program providers to customize their benefit programs to meet PG&E's
9 needs and requirements. Due to the different number of employees at each New Entity
10 (compared to PG&E's existing workforce) and other factors, PG&E anticipates that the
11 process of developing comparable benefit programs for the New Entities will be complex
12 and time-consuming. At a minimum, the process will involve an assessment of current
13 benefit levels, comparison of current benefits with those available in the marketplace for the
14 New Entities, and extensive negotiations with both the IBEW and benefit program providers.

15 6. The consultants described below (the "Consultants") will assist PG&E with
16 the process of developing new benefit programs for the New Entities as well as any related
17 benefit program work for the Reorganized Debtor (collectively, the "Benefit Program
18 Work"). PG&E intends to maintain its existing benefit programs without any substantial
19 changes. However, it is anticipated that existing benefit programs may require certain
20 modifications due to the anticipated reduction in PG&E's workforce that will result from
21 transferring employees to the New Entities. The Consultants will work under the direction
22 and supervision of a PG&E Benefits Manager. While PG&E has in-house expertise in this
23 area, PG&E requires substantial outside assistance as a result of the volume of work to be
24 completed and time period for completion of the work.

25 7. Smith-Jennings, Inc. Smith-Jennings is a benefits consulting firm and will
26 assist PG&E in (i) assessing the comparability of existing benefit programs with potential
27 new benefit programs, (ii) establishing the benefit program provider selection criteria, and
28 (iii) assisting with negotiations with the IBEW under the Collective Bargaining Agreement

1 and negotiations with benefit program providers.

2 8. The total estimated expenditure for Smith-Jennings' work described above
3 is approximately \$650,000, for the period beginning January 2002 and continuing to the
4 Effective Date (as defined in the Plan), or such earlier date on which the Benefit Program
5 Work has been completed. Smith-Jennings began limited work in January 2002 for the
6 purpose of assisting PG&E in determining the scope and timing of the Benefit Program
7 Work to be completed. PG&E will pay Smith-Jennings on a monthly basis, based on
8 monthly billings by Smith-Jennings.

9 9. Towers Perrin. Towers Perrin is a benefits consulting and actuarial firm.
10 Towers Perrin has provided benefit consulting and actuarial services to PG&E for
11 approximately 20 years and retains PG&E's health claims history and actuarial information.
12 This information will be required for program providers to determine program pricing and
13 options for the New Entities. Towers Perrin will also perform actuarial work that will be
14 necessary in order to separate the various pension and retirement trusts currently in place at
15 PG&E. Finally, Towers Perrin will advise PG&E with respect to the design of all new
16 benefit programs.

17 10. The total estimated expenditure for Towers Perrin's work described above
18 is approximately \$550,000 for the period beginning January 2002 and continuing to the
19 Effective Date (as defined in the Plan), or such earlier date on which the Benefit Program
20 Work has been completed. Towers Perrin began limited work in January 2002 for the
21 purpose of assisting PG&E in determining the scope and timing of the Benefit Program
22 Work to be completed. PG&E will pay Towers Perrin on a monthly basis, based on monthly
23 billings by Towers Perrin.

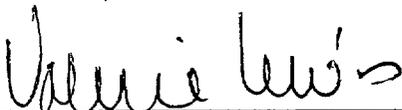
24 11. William M. Mercer, Incorporated ("Mercer"). Mercer is a benefits
25 consulting firm and will assist PG&E in all phases of the development of short term and long
26 term disability benefit programs for the New Entities, including analysis of PG&E's existing
27 disability benefits, new program design, identification of disability benefit program
28 providers, assisting with the bidding process and negotiations with providers.

1 12. The total estimated expenditure for Mercer's work described above is
2 approximately \$170,000 for the period beginning May 2002 and continuing to the Effective
3 Date (as defined in the Plan), or such earlier date on which the Benefit Program Work has
4 been completed. PG&E will pay Mercer on a monthly basis, based on monthly billings by
5 Mercer.

6 13. A substantial amount of the Benefit Program Work must begin immediately
7 in order for Plan implementation to occur on a timely basis. As with any business entity
8 employing thousands of employees, the development of comprehensive benefit programs is
9 a critical first step in establishing the foundation for the New Entities to begin business
10 operations. Until such benefit programs are developed, critical implementation tasks leading
11 to the transfer of existing employees and the recruitment of new employees cannot proceed.
12 The anticipated complexities and time period required for completion of negotiations related
13 to development of large-scale benefit programs for the New Entities, along with the
14 negotiation requirements of the Collective Bargaining Agreement with the IBEW, require
15 that the Benefit Program Work begin well in advance of Plan confirmation in order to assure
16 timely implementation of the Plan.

17 14. PG&E retains the right to terminate the Consultants' contracts at any time.
18 PG&E's standard contractual provisions in place with the Consultants do not guarantee
19 future work or any minimum amount of revenue. PG&E also maintains the right to
20 terminate the contracts at any time without cause, in which case PG&E is liable only for
21 work performed to the date of termination plus costs reasonably incurred by the Consultants
22 in terminating any work in progress.

1 I declare under penalty of perjury of the laws of the United States that the
2 foregoing is true and correct, and that this declaration was executed at San Francisco,
3 California on April 29, 2002.

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6 VALERIE LEWIS

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