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

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: October 21, 2002
Time: 1:30 p.m.
Place: 235 Pine Street, 22nd Floor
San Francisco, California
Judge: Hon. Dennis Montali

DECLARATION OF MICHAEL J. DONNELLY IN SUPPORT OF
DEBTOR'S MOTION FOR AUTHORITY TO PAY FEES OF DESIGNATED
UNDERWRITER'S COUNSEL

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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1 I, Michael J. Donnelly, declare as follows:

2 1. I am the Assistant Treasurer of Pacific Gas and Electric Company, a position that
3 I have held since September of 2000. Except as otherwise indicated, I make this declaration
4 based upon my personal knowledge concerning the matters stated herein. If called as a
5 witness, I could and would testify competently to the facts stated herein.

6 2. I make this declaration in support of PG&E's Motion for Authority to Pay Fees of
7 Designated Underwriter's Counsel (the "Motion").

8 3. PG&E, together with its parent corporation, PG&E Corporation, has proposed a
9 Plan of Reorganization (as amended from time to time, the "Plan"), which has recently been
10 voted on by creditors, along with the competing plan of reorganization proposed by the
11 California Public Utilities Commission. The confirmation hearing has been scheduled to
12 commence on November 18, 2002.

13 4. The Plan provides for the creation of three new companies, ETrans LLC, GTrans
14 LLC and Electric Generation LLC (collectively, the "New Entities"), whereby PG&E will
15 separate according to its four historical lines of business and functions. Thus, the
16 Reorganized Debtor (referred to herein as "PG&E") will continue to operate the retail gas
17 and electric distribution business, ETrans LLC ("ETrans") will operate the electric
18 transmission business, GTrans LLC ("GTrans") will operate the gas transmission business,
19 and Electric Generation LLC ("Gen") will operate the electric generation business.

20 5. A significant component of the Plan involves the issuance of various types of
21 debt securities by the New Entities as part of the distributions to be made to holders of
22 Allowed Claims (as defined in the Plan) and by PG&E and the New Entities as a means of
23 financing the implementation of the Plan. PG&E and the New Entities will utilize the
24 services of one or more underwriters (the "Underwriter") in connection with the financing.
25 The Underwriter's services will include assisting in the structuring and pricing of the debt
26 securities, and marketing the New Money Notes (as defined in the Plan) to be sold to
27 investors, and facilitating potential initial sales of Long-Term Notes (as defined in the Plan)
28 by holders of Allowed Claims (as discussed in the Plan). As is customary in public offerings

1 of securities and in order to satisfy certain statutory requirements under the federal securities
2 laws, the Underwriter, together with its counsel, will conduct a due diligence investigation of
3 each of the issuers of the securities. The Underwriter has not yet been selected, although
4 PG&E anticipates that Lehman Brothers may serve as an Underwriter.

5 6. PG&E has designated Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden")
6 to act as underwriter's counsel ("Underwriter's Counsel"). In this capacity, Skadden's
7 services may include: (i) reviewing, drafting and/or negotiating the legal documentation,
8 including the registration statements and related prospectuses to be filed with the Securities
9 and Exchange Commission ("SEC") by PG&E and each of the New Entities for the offerings
10 of New Money Notes to the public and the resale of Long-Term Notes by holders of
11 Allowed Claims to the public, and (ii) conducting the due diligence investigation of the
12 issuers of the debt securities being sold to the public. Specifically, Skadden will be
13 responsible for reviewing and assisting in revising the registration statements and
14 prospectuses for the offerings of New Money Notes for, among other things, compliance
15 with federal and state laws, rules and regulations relating to registered securities offerings as
16 well as the descriptions of the debt securities and the underwriting arrangements. In
17 connection with the preparation of the registration statements, Skadden will assist with the
18 due diligence investigation of each of the issuers, which will consist of a review of the
19 issuers' material contracts, financing arrangements, materials relating to pending or
20 threatened litigation, environmental reports and assessments and other materials, and will
21 meet with members of the issuers' management and external auditors to discuss their
22 business, legal and financial affairs. Skadden will also be responsible for drafting, reviewing
23 and/or negotiating the underwriting agreements, indentures and other legal documents
24 relating to issuance and sale of the New Money Notes and Long-Term Notes. I am informed
25 and believe and thereupon allege that in connection with the offerings, Skadden will also
26 provide the Underwriter with customary legal opinions with respect to matters relating to the
27 offerings as well as a "negative assurance" letter providing the Underwriter with assurance
28 that Skadden has no reason to believe that the registration statements or the prospectuses

1 contain any untrue statement or omission of a material fact. Skadden will also be
2 responsible for reviewing the "comfort letters" provided by the issuers' auditors, covering
3 the audited and unaudited financial information to be included in the registration statements.

4 7. Skadden will not represent PG&E in an attorney/client relationship with respect
5 to its services as Underwriter's Counsel, although Skadden will continue to act as special
6 regulatory counsel to PG&E.

7 8. As conditions precedent to the effectiveness of the Plan, (i) the registration
8 statements for the New Money Notes and the Long-Term Notes must be declared effective
9 by the SEC, and (ii) PG&E must have consummated the sale of its New Money Notes and
10 the New Money Notes of each of the New Entities shall have been priced and their trade
11 dates shall have occurred. Preparing registration statements for securities offerings,
12 particularly for new issuers, involves substantial legal work to ensure that the disclosure
13 contained therein is fair and accurate and complies with the securities laws, rules and
14 regulations. Once the registration statements are filed, there may be a lengthy SEC review
15 process for the securities offerings before the registration statements are declared effective.
16 In order to meet the foregoing conditions precedent to the effectiveness of the Plan, the legal
17 work by Underwriter's Counsel must begin promptly. This legal work will include the time-
18 consuming and complex process of participating in the preparation of the registration
19 statements and conducting the due diligence investigation, which will also require
20 substantial coordination with the issuers and their counsel

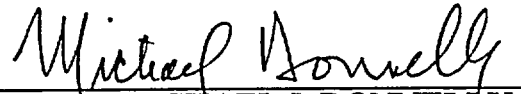
21 9. To date, Skadden has performed limited services as Underwriter's Counsel and
22 has incurred approximately \$390,000 in fees and expenses, which have not been paid.

23 10. It is customary for the issuer to pay for the underwriter's legal fees in connection
24 with complex debt offerings such as those involved under the Plan.

25 11. I am informed and believe that sound business justifications support PG&E's
26 request to pay the legal fees of Underwriter's Counsel. It is necessary that the time-
27 consuming and complex legal work to be performed by Underwriter's Counsel be done
28 promptly in order for PG&E to ensure that it can timely meet the conditions precedent to the

1 effectiveness of the Plan. Because the issuer's payment of such fees is a common business
2 practice for complex debt offerings, PG&E believes that it is necessary to pay these costs in
3 furtherance of implementation of the Plan. PG&E is solvent and has sufficient cash to pay
4 these expenses without causing any detriment to its creditors. Furthermore, PG&E will
5 attempt to negotiate a partial or full reimbursement of any fees paid at such time as the
6 Underwriter is selected.

7 I declare under penalty of perjury under the laws of the United States of America that
8 the foregoing is true and correct. Executed this 1st day of October, 2002, at San Francisco,
9 California.

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12 _____
13 MICHAEL J. DONNELLY

14 HOWARD
15 RICE
16 NEMEROVSKI
17 CANADY
18 FALK
19 & RABKIN
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