JAMES L. LOPES (No. 63678)
WILLIAM J. LAFFERTY (No. 120814)
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

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: February 6, 2003 Time: 1:30 p.m. Place: 235 Pine Street, 22nd Floor San Francisco, California

DECLARATION OF LANETTE KOZLOWSKI IN SUPPORT OF MOTION OF PACIFIC GAS AND ELECTRIC COMPANY FOR ORDER AUTHORIZING DEBTOR TO PAY CERTAIN REFUND OBLIGATIONS

I, Lanette Kozlowski, declare as follows:

1. I am a manager in the Electric Transmission Rates department of Pacific Gas and Electric Company ("PG&E"), a position I have held since October, 1998. I make this Declaration based upon my personal knowledge of PG&E's general operations and upon my review of PG&E's records concerning the matters stated herein. If called as a witness, I could and would testify competently to the facts stated herein.

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2. PG&E is seeking an order authorizing PG&E to pay three categories of refund obligations ordered by the Federal Energy Regulatory Commission ("FERC").

3. The California Independent System Operator Corporation ("CAL ISO") imposes certain charges on PG&E and other utilities operating in California. PG&E and the other utilities generally pass on these charges to their customers by adjusting rates. FERC imposes very strict guidelines as to how the utilities can pass on these costs and which of their customers must bear the resulting increased rates. FERC typically issues preliminary indications subject to later review and, where necessary, customer refunds. To settle disputes, FERC conducts extensive hearings and issues binding orders. Each of the refunds that PG&E now seeks authority to make results from a FERC order or a settlement agreement approved by FERC that modified a FERC preliminary indication[1]. Because such orders and agreements are retroactive, it is common for the utility to make adjustments and effect refunds for past charges after they have been litigated or settled at FERC.

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4. PG&E's customers are divided into two general categories: ETC Customers and TO Tariff Customers. The ETC Customers are those customers who entered into long-term transmission contracts with PG&E before the creation of the CAL ISO. These contracts make it necessary for PG&E to seek authority from FERC to pass on certain CAL ISO charges to the ETC Customers under Federal Power Act ("FPA") Section 205. The ETC Customers are primarily municipal utilities.

5. TO Tariff Customers are subject to a current tariff that allows the pass-through of certain CAL ISO costs. As such, TO Tariff Customers are obligated to reimburse PG&E for applicable charges imposed under the CAL ISO Tariff and PG&E's TO Tariff. TO Tariff customers can be divided into two general groups: wholesale customers and retail customers.

6. The refunds that PG&E is seeking authority to effect reflect charges imposed by the CAL ISO or changes to various rates or rate structures under PG&E's TO Tariff or

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[1]These orders and settlement agreements are not attached as they are quite voluminous but will be made available to the Court and interested parties.

Reliability Services ("RS") Tariff. FERC has modified its preliminary indications and decided that PG&E must change the way it charged, or failed to charge, certain customers. FERC has ordered PG&E to effect the appropriate adjustments.

7. In connection with the state of California's electric industry restructuring, the CAL ISO was established to provide operational control over most of the state's electric transmission facilities and to provide comparable open access for electric transmission service. PG&E serves as the scheduling coordinator ("SC") to facilitate continuing service under certain of the ETC contracts. The CAL ISO then bills PG&E, as the SC, for providing certain services associated with these ETC contracts. These CAL ISO charges are referred to as the SC costs ("SC Costs").

8. Since April 1, 1998, PG&E has included the SC Costs in its calculation of rates for TO Tariff Customers via an accounting mechanism known as the Transmission Revenue Balancing Account Adjustment ("TRBAA"). In Opinion No. 458, issued on August 5, 2002, FERC held that PG&E should not have used the TRBAA mechanism for all SC Costs because the effect of that approach was to charge TO Tariff Customers for all SC Costs. FERC concluded that, instead, PG&E should have sought recovery of some portion of these costs from its ETC Customers. Up until the date of FERC's ruling, PG&E's TO Tariff Customers had been paying all of the SC Costs. FERC ordered that PG&E refund its TO Tariff Customers $110 million, of which approximately $75 million reflects pre-petition payments. This refund will be accomplished through a reduction in transmission rates to TO Tariff Customers in 2003.

9. On November 12, 1999, PG&E filed a Scheduling Coordinator Services ("SCS") Tariff to collect SC Costs from the ETC Customers in the event that FERC denied the TRBAA cost recovery mechanism. Litigation of the SCS Tariff will begin shortly and PG&E believes it will be successful in recovering the dollars reflected in these refunds from

its ETC Customers[2].

10. The CAL ISO also imposes charges on PG&E and the other utilities for certain expenses that the CAL ISO incurs in connection with its efforts to ensure reliable electricity services. These charges are referred to as Reliability Service Charges ("RS Charges"). There is not a dispute that PG&E may pass the RS Charges on to customers, but there have been disputes over which customers should bear which portion of the expenses.

11. Since June 29, 2000, PG&E has allocated the RS Charges to all customers, ETC and TO Tariff. In its Opinion No. 459, issued on August 2, 2002, FERC held that PG&E did not have authority to collect the RS Charges from ETC Customers. PG&E seeks authority to refund to the ETC Customers approximately $37 million, of which approximately $11 million reflects pre-petition payments. The refund cannot be effected through account adjustments or credits. Rather, this refund requires a cash payment by PG&E.

12. On June 26, 2001, FERC approved a settlement of PG&E's fifth Transmission Owner Tariff Rate Case ("TO5") that reduced PG&E's transmission rates. On February 27, 2002, FERC approved a settlement (the "TAC Settlement") that had been entered into by PG&E and all parties to PG&E's Transmission Access Charge Implementation filing. That settlement made changes to PG&E's TO Tariff to implement a new rate methodology adopted by the CAL ISO. The TAC Settlement incorporates certain changes to the rate design itself, as opposed to PG&E's revenue requirement. Such alterations to the rate design have a direct impact on customer rates. Accordingly, pursuant to the TAC Settlement, PG&E is obligated to refund approximately $10.5 million to its wholesale TO Tariff Customers as a result of these rate design changes and for the reductions in the transmission rates that stem from the TO5 settlement. This amount will be recovered through the

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[2]PG&E seeks recovery of all of the SC Costs from the ETC customers except for certain congestion charges that PG&E incurred, in the approximate amount of $13.5 million. PG&E has held a total of $63 million in reserves, to which the congestion costs and other unrecoverable refunds would be applied. PG&E does not expect the outcome of this proceeding to have a material adverse effect on its results of operations or financial condition.

TRBAA rate mechanism in 2003 rates. Approximately $9 million of the $10.5 million relates to pre-petition payments. The refund cannot be effected via account credits or adjustments but requires a cash payment by PG&E.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed this 16th day of January, 2003 at San Francisco, California.

Lanette Kozlowski

LANETTE KOZLOWSKI

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