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

13 UNITED STATES BANKRUPTCY COURT
14 NORTHERN DISTRICT OF CALIFORNIA
15 SAN FRANCISCO DIVISION

16 In re
17 PACIFIC GAS AND ELECTRIC
18 COMPANY, a California corporation,
19 Debtor.
20 Federal I.D. No. 94-0742640

21 Case No. 01 30923 DM
22 Chapter 11 Case
23 Date: February 27, 2003
24 Time: 1:30 p.m.
25 Place: 235 Pine Street, 22nd Floor
26 San Francisco, California

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

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DECLARATION OF MICHAEL G. WHITE IN SUPPORT OF MOTION FOR
AUTHORITY TO INCUR POST-PETITION SECURED DEBT IN CONNECTION WITH
NATURAL GAS TRANSPORTATION AGREEMENT

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1 I, Michael G. White, declare that:

2 1. I have been employed by Pacific Gas and Electric Company, the debtor and
3 debtor in possession in the above-referenced Chapter 11 bankruptcy case ("PG&E"), for the
4 past 20 years. My current position is that of Director, Risk Management, in PG&E's Risk
5 Management Department, a position I have held for the past ten months. I make this
6 declaration from personal knowledge and could, if called as a witness, competently testify to
7 the matters set forth herein.

8 2. I make this declaration in support of PG&E's Motion for Authority to Incur
9 Post-Petition Secured Debt in connection with Natural Gas Service Agreement (the
10 "Motion"). In my capacity as Director, Risk Management, I am personally responsible for
11 managing PG&E's credit exposures and collateral requirements.

12 3. Pursuant to a Firm Transportation Service Agreement dated October 26, 1993
13 (the "Service Agreement") between PG&E and PG&E Gas Transmission, Northwest
14 Corporation ("GTN"), GTN transports natural gas supplies purchased by PG&E in Canada.
15 These gas supplies are transported through GTN's pipeline (located at the border of British
16 Columbia, Canada and Idaho) to the Oregon-California border, where the pipeline connects
17 with PG&E's California gas transmission system. The Service Agreement requires GTN to
18 provide PG&E with 609,968 decatherms per day of transportation (a decatherm is equal to
19 100,000 British thermal units). Pursuant to the Service Agreement, PG&E pays GTN a
20 fixed monthly reservation fee to reserve the right to use the foregoing capacity and also pays
21 GTN volumetric fees based on the actual quantities transported each month. Currently, the
22 fixed monthly reservation fee is approximately \$4.6 million.

23 4. GTN is a subsidiary of PG&E National Energy Group, Inc., which is a
24 wholly-owned subsidiary of PG&E Corporation, the parent corporation of PG&E.

25 5. PG&E has utilized GTN to transport natural gas supplies purchased in Canada
26 since 1961. Canadian gas supplies comprise approximately 70% of PG&E's natural gas
27 portfolio, from which PG&E serves more than 3 million core gas customers.

28 6. Pursuant to a GTN tariff (approved by the Federal Energy Regulatory

1 Commission or "FERC"), there are credit requirements for "Shippers" such as PG&E
2 contracting for gas transportation services with GTN. These credit requirements specify that
3 GTN shall not be required to perform or to continue transportation services on behalf of any
4 Shipper that is or becomes insolvent, or who fails within a reasonable period of time to
5 establish or confirm creditworthiness. Shippers who fail to meet the creditworthiness
6 requirements have the option of providing a guarantee of financial performance or providing
7 security acceptable to GTN. A true and correct copy of the relevant portion of the GTN
8 tariff is attached hereto as Exhibit "A".

9 7. As a result of the downgrading of PG&E's credit rating in January 2001, GTN
10 requested and obtained collateral from PG&E in the amount of \$11.4 million on or about
11 January 10, 2001. This amount represented approximately three months of fixed reservation
12 fees as well as three months of estimated volumetric fees under the Service Agreement, at
13 the rates in effect as of January 2001. Effective November 1, 2002, GTN increased the
14 reservation rate under the Service Agreement, pursuant to a FERC-approved tariff, by
15 approximately \$930,000 per month. As a result, the \$11.4 million previously deposited as
16 collateral is no longer sufficient to cover three months of fees under the Service Agreement.
17 Therefore, GTN has requested an additional \$2,783,457 to be deposited with GTN as
18 collateral.

19 8. PG&E has requested that the foregoing collateral amounts be deposited into
20 an escrow or other segregated account with GTN. GTN has indicated that it is not willing to
21 segregate these funds and that it does not segregate similarly situated collateral received
22 from other Shippers. However, GTN has confirmed in writing that these funds are being
23 held as collateral to secure PG&E's obligations under the Service Agreement.

24 9. PG&E seeks to deposit the \$2,783,457 in order to satisfy GTN's
25 creditworthiness requirements. This financing will allow PG&E to continue to serve its gas
26 customers by obtaining necessary natural gas transportation services. PG&E believes that
27 the amount of collateral to be posted as security is reasonable as it is calculated to cover
28 approximately three months of fees under the Service Agreement.

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I declare under penalty of perjury that the foregoing is true and correct, and that
this declaration was executed this 30th day of January, 2003, at San Francisco, California.



MICHAEL G. WHITE

WD 012703/1-1419905/1052113/v1

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RAEBIN
A Professional Corporation

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

18. OPERATING PROVISIONS (Continued)

18.3 Credit-worthiness

(A) Credit-worthiness for Firm Transportation Service

(1) PG&E GT-NW shall not be required to perform or to continue transportation service under this FERC Gas Tariff, Second Revised Volume 1-A on behalf of any Shipper who is or has become insolvent or who, after PG&E GT-NW's request, fails within a reasonable period to establish or confirm credit-worthiness. Shippers shall provide, initially and on a continuing basis, financial statements, evidence of debt and/or credit ratings, and other such information as is reasonably requested by PG&E GT-NW to establish or confirm Shipper's qualification for service. Credit limits will be established based on the level of requested service and Shipper credit-worthiness as established by the following:

(a) Credit-worthiness must be evidenced by at least a long term bond (or other senior debt) rating of BBB or an equivalent rating.

Such rating may be obtained in one of three ways:

- (i) The rating will be determined by Standard and Poors or another recognized U.S. or Canadian debt rating service;
- (ii) If Shipper's debt is not rated by a recognized debt rating service, an equivalent rating as determined by PG&E GT-NW, based on the financial rating methodology, criteria and ratios for the industry of the Shipper as published by the above rating agencies from time to time. In general, such equivalent rating will be based on the audited financial statements for the Shipper's two most recent fiscal years, all interim reports, and any other relevant information;

(Continued)

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

18. OPERATING PROVISIONS (Continued)

18.3 (A) Credit-worthiness for Firm Transportation Service
(Continued)

- (iii) Shipper may, at its own expense, obtain a private rating from a recognized debt rating service, or request that an independent accountant or financial advisor, mutually acceptable to PG&E GT-NW and the Shipper, prepare an equivalent evaluation based on the financial rating methodology, criteria, and ratios for the industry of the Shipper as published by the above rating agencies from or
 - (b) Approval by PG&E GT-NW's lenders; or
 - (c) If Shipper is requesting credit to bid on a parcel that is for one year (365 days) or less of service through PG&E GT-NW's Capacity Release Program contained in Paragraph 28, and this option is selected by the Releasing Shipper, Shipper may demonstrate credit-worthiness by providing two years of audited financial statements for itself, or for its parent company if it is a subsidiary which is consolidated with its parent company and does not issue stand-alone financial statements, demonstrating adequate financial strength to justify the amount of credit to be extended. PG&E GT-NW shall apply consistent evaluation practices to determine credit-worthiness.
- (2) If Shipper does not establish or maintain credit-worthiness as described above, Shipper has the option of receiving transportation service under this FERC Gas Tariff by providing to PG&E GT-NW one of the following alternatives:

(Continued)

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

18. OPERATING PROVISIONS (Continued)

18.3 (A) Credit-worthiness for Firm Transportation Service
(Continued)

(a) A guarantee of Shipper's financial performance in a form satisfactory to PG&E GT-NW and for the term of the Gas Transportation Agreement from a corporate affiliate of the Shipper or a third party either of which meets the credit-worthiness standard discussed above.

(b) Other security acceptable to PG&E GT-NW's lenders.

18.3 (B) Credit-worthiness for Interruptible Transportation Service

(1) PG&E GT-NW shall not be required to perform or to continue interruptible transportation service under this FERC Gas Tariff, Second Revised Volume No. 1-A on behalf of any Shipper who is or has become insolvent or who, at PG&E GT-NW's request, fails within a reasonable period to demonstrate credit-worthiness. Shipper's credit-worthiness shall be determined by providing proof of least two of the items listed below:

(a) A long-term bond or commercial paper rating from Standard and Pools or Moody's equivalent to a "Ba" or better, or a commercial paper rating from Standard and Pools or Moody's equivalent to Prime-3 or better.

(b) Audited financial statements for itself, or for its parent company if it is a subsidiary which is consolidated with its parent company and does not issue stand-alone financial statements, for the two preceding years showing good financial strength.

(c) An estimated financial strength rating by Dun and Bradstreet sufficient to cover the credit to be extended and a corresponding Dun and Bradstreet composite credit appraisal of "fair" or better.

(Continued)

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

18. OPERATING PROVISIONS (Continued)

18.3 (B) Credit-worthiness for Interruptible Transportation Service
(Continued)

- (d) A demonstration by the Shipper that the Company has sufficient financial capacity or backing to warrant an extension of credit. This demonstration could include proof of banking relationships sufficient to cover the service agreement, or a detailed listing of credit references within the industry, exhibiting a good credit history.
- (2) If Shipper does not demonstrate credit-worthiness, Shipper has the option of receiving interruptible transportation service under this FERC Gas Tariff, Second Revised Volume No. 1-A if Shipper provides PG&E GT-NW a letter of credit in an amount equal to the cost of performing the maximum level of service requested for a three (3) month period of time. The letter of credit must be from a credit worthy financial institution and be in place before the Transportation Service Agreement can be signed. The Shipper also has the option of receiving transportation service if Shipper prepays for transportation services on a month-to-month basis pursuant to the following terms:
- (a) For a calendar month in which transportation service is desired (delivery month), Shipper must notify PG&E GT-NW no later than eight (8) business days prior to the commencement of delivery month (estimation date) of its estimation of the maximum, cumulative gas deliveries (monthly estimation) desired for the delivery month. (For Shipper's initial monthly estimation, the delivery month, or remaining portion thereof, shall commence eight (8) days after the estimation date.) Notice of monthly estimation may be telephonic or written; telephonic notices must be confirmed in writing and received by PG&E GT-NW within five (5) business days. PG&E GT-NW will advise Shipper within forty-eight (48) hours of the estimation date of the exact dollar amount of the prepayment. Shipper shall not deliver or receive gas in excess of the monthly estimation during delivery month.

(Continued)

TRANSPORTATION GENERAL TERMS AND CONDITIONS
(Continued)

18. OPERATING PROVISIONS (Continued)

18.3 (B) Credit-Worthiness for Interruptible Transportation Service (Continued)

- (b) No later than three (3) business days (settlement date) prior to commencement of delivery month, Shipper shall pay to PG&E GT-NW and PG&E GT-NW shall have received from Shipper lawful money of the United States in an amount equal to the prepayment amount provided to Shipper by PG&E GT-NW described above.
- (c) On or before the twentieth (20th) day following delivery month, PG&E GT-NW shall provide statement to Shipper detailing the transportation service provided during the delivery month. The statement will reconcile the amount prepaid in accordance with the monthly estimation, credit to Shipper, if applicable. Any such credit will be deducted from the prepayment for the following month. Should the Shipper elect not to receive transportation services for the following month, Shipper shall so notify PG&E GT-NW in writing; PG&E GT-NW will issue a check to the Shipper within seven (7) business days following receipt by PG&E GT-NW of such notice.

18.3 (C) Credit-worthiness for Firm and Interruptible Transportation Service

For purposes of this FERC Gas Tariff, Second Revised Volume No. 1-A the insolvency of a Shipper shall be evidenced by the filing by such Shipper or any parent entity thereof (hereinafter collectively referred in this paragraph to as "the Shipper") of a voluntary petition in bankruptcy or the entry of a decree or order by a court having jurisdiction in the premises adjudging the Shipper as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Shipper under the Federal Bankruptcy Act or any Act or any other applicable federal or state law, or appointing a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Shipper

(Continued)

