

50-275/323

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PACIFIC GAS AND ELECTRIC COMPANY  
7

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

11 In re  
12 PACIFIC GAS AND ELECTRIC  
13 COMPANY, a California corporation,  
14 Debtor.  
15 Federal I.D. No. 94-0742640

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

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17 DECLARATION OF MICHAEL SCHONHERR  
18 IN SUPPORT OF FOURTH MOTION FOR AUTHORIZATION TO INCUR  
MISCELLANEOUS IMPLEMENTATION EXPENSES  
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DECLARATION OF MICHAEL SCHONHERR

HOWARD  
RICE  
NEMEROVSKI  
CANADY  
FALK  
& RABKIN  
A Professional Corporation

1 I, Michael Schonherr, declare:

2 1. I am a Manager in the Building and Land Services Department for Pacific  
3 Gas and Electric Company ("PG&E"), a position I have held since September 2001. I have  
4 worked in various managerial capacities for the Building and Land Services Department for  
5 over 14 years. I make this declaration in support of the Fourth Motion for Authorization to  
6 Incur Miscellaneous Implementation Expenses (the "Motion"). Defined terms used herein  
7 shall have the meanings set forth in the Motion. This Declaration is based on my personal  
8 knowledge, except where indicated otherwise. If called as a witness, I could and would  
9 testify competently to the facts stated herein.

10 2. PG&E previously filed a Motion for Authority to Incur Land-Related  
11 Expenses on April 12, 2002 (the "Land Motion"), which was approved by Order entered on  
12 May 17, 2002. PG&E subsequently filed its Third Motion for Authority to Incur  
13 Miscellaneous Implementation Expenses (the "Third Miscellaneous Motion") on October  
14 18, 2002, which included additional land-related expenses (at pp. 4-6) and was approved by  
15 Order entered on November 8, 2002. The Land Motion described expenses to be incurred  
16 by PG&E in connection with title review and analysis, and survey work, for a total estimated  
17 cost of \$5.5 million, while the Third Miscellaneous Motion disclosed additional land-related  
18 work for an estimated cost of \$750,000. As stated in the Land Motion, this work arises out  
19 of PG&E's large portfolio of real estate assets, including approximately 250,000 acres of  
20 land, more than six million square feet of support service space (service centers, offices and  
21 warehouses) and hundreds of real property leases (collectively, the "Land"), along with  
22 thousands of related real property rights, including: rights-of-way and easements,  
23 prescriptive rights, possessory interests, unrecorded rights and other land-related agreements,  
24 and associated maps and drawings (collectively, the "Land Rights"). This work is necessary  
25 to prepare for the transfers of Land and Land Rights to the New Entities in connection with  
26 the implementation of the Plan.

27 3. Since the Land Motion and Third Miscellaneous Motion were filed, PG&E  
28 has determined that the land-related work to be performed by the contractors will require

1 more time than previously estimated. The nature of the work has not changed from that  
2 described in the Land Motion and Third Miscellaneous Motion and will be completed by the  
3 same consultants identified in the prior motions. However, PG&E estimates that the  
4 completion of this project could require approximately \$1.4 million in additional expenses,  
5 as described in Paragraph 4 below. Paragraph 5 below describes a new project that has been  
6 identified as necessary to commence prior to Plan confirmation and is related to the Land  
7 and Land Rights' transfers, with an estimated cost of \$100,000.

8           4. Additional Land and Land Rights Analysis and Reconciliation. The work  
9 described in the Land Motion and Third Miscellaneous Motion has not changed but has  
10 proven to be more substantial and complex than PG&E had previously estimated. First,  
11 more exhibits, maps, title descriptions and other documents pertaining to Land Rights were  
12 needed than previously contemplated, in connection with both transfer agreements and  
13 various regulatory filings. Second, the title analysis work associated with gas-related assets  
14 and telecommunications facilities has resulted in increased costs. For example, the records  
15 for most of the new gas lines identified for transfer are not centrally stored or managed and  
16 therefore, the process of locating these records has involved more of the contractors' time  
17 than previously anticipated; in addition, increased contractor time has been required in  
18 assessing the Land Rights associated with the gas lines and determining how these Land  
19 Rights should be transferred. These problems were not known until PG&E and the  
20 contractors located and examined various documents. Third, PG&E and its contractors  
21 found that the work associated with the properties to be divided between ETrans and PG&E  
22 under the Plan (including subdivision and lot line adjustments and title analysis work) was  
23 also more complex than previously anticipated. Based on the foregoing, PG&E estimates  
24 that an additional \$1.4 million in expenses will be incurred in connection with the work  
25 associated with the transfer of Land and Land Rights.

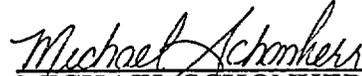
26           5. Development of a Real Estate Recording Plan. The transfers of Land and  
27 Land Rights to the New Entities in connection with the implementation of the Plan will  
28 involve real estate assets located in 47 counties in California and in Klamath County,

1 Oregon. Real estate documents transferring these assets to each of the New Entities will  
2 need to be recorded with each county recorder's office on the Plan Effective Date. Because  
3 the volume of documents to be recorded is large (approximately 10,000 pages for the 48  
4 counties), the process of timing and sequencing of the recording will be complex. PG&E  
5 believes it is imperative to begin planning for these activities now so that a comprehensive  
6 plan can be developed well in advance of the Plan Effective Date. The development of a  
7 real estate recording plan is expected to take up to three months.

8 6. PG&E has selected NSI Consulting & Development, Inc. ("NSI") to  
9 develop a detailed plan for the timely and accurate recording of the real estate transfer  
10 documents. NSI is a real estate consulting firm with expertise in assisting utilities with  
11 separation of land and land rights related to the disaggregation of transmission and  
12 distribution businesses, such as would be required for PG&E upon Plan confirmation.  
13 PG&E will work with NSI to develop prototype packages for presentation to a few test  
14 counties. Based on feedback received from the initial discussions with the test counties, NSI  
15 will work with PG&E to develop final standardized recording packages for each county.  
16 NSI will then coordinate with each county to develop the form, content and final process  
17 (including the payment of all required fees and expenses) for recording the real estate  
18 transfer documents, ensuring that all parties are prepared to take the necessary steps to  
19 successfully transfer the Land and Land Rights by the Plan Effective Date. PG&E estimates  
20 that the cost for NSI's services will be approximately \$100,000.

21 7. PG&E's standard contractual provisions in place with the land-related  
22 contractors, including NSI, do not guarantee future work or any minimum amount of  
23 revenue. PG&E also maintains the right to terminate the work at any time without cause, in  
24 which case PG&E is liable only for work performed to the date of termination plus costs  
25 reasonably incurred by the consultant in terminating any work in progress.  
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1 I declare under penalty of perjury under the laws of the United States of America  
2 that the foregoing is true and correct and that this Declaration is executed this 6th day of  
3 February, 2003, at San Francisco, California.

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5 MICHAEL SCHONHERR

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14 HOWARD  
RICE  
NEMEROVSKI  
CANADY  
BALK  
& RABKIN  
15 A Registered Corporation