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7 PACIFIC GAS AND ELECTRIC COMPANY

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

13 HOWARD
14 RICE
15 NEMEROVSKI
16 CANADY
17 FALK
18 & RABKIN
19 A Professional Corporation

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

Case No. 01 30923 DM
Chapter 11 Case
Date: April 9, 2003
Time: 9:30 a.m.
Place: 235 Pine Street
San Francisco, California
Judge: Hon. Dennis Montali

19 DECLARATION OF DOUGLAS G. DANIELS IN SUPPORT OF MOTION OF
20 PACIFIC GAS AND ELECTRIC COMPANY FOR ORDER AUTHORIZING
21 DEBTOR TO REPAY CERTAIN GENERATORS

22 I, Douglas G. Daniels, declare as follows:

23 1. I am Senior Project Manager in the Generation Interconnection Services Section
24 of the Engineering and Planning Technical Services Department of Pacific Gas and Electric
25 Company ("PG&E"), a position I have held since August, 2001. I make this Declaration
26 based upon my personal knowledge of PG&E's general operations and upon my review of
27 PG&E's records concerning the matters stated herein. If called as a witness, I could and
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OGC 02
[Handwritten signatures and initials]

1 would testify competently to the facts stated herein.

2 2. PG&E is seeking an order authorizing PG&E to repay three categories of
3 advances to certain generators ordered by the Federal Energy Regulatory Commission
4 ("FERC") as described below.

5 3. When a generator constructs a new power plant, FERC permits transmission
6 providers such as PG&E to charge the generator the cost of upgrades to interconnect the
7 generator with the provider's transmission system. PG&E enters into a Generator Special
8 Facilities Agreement ("GSFA") and pursuant to those agreements, the generator advances
9 the funds for the upgrades. PG&E currently has certain Generator Special Facilities
10 Agreements (collectively the "Agreements") with the following Generators: Los Medanos
11 Energy Center, LLC ("Los Medanos"); Gilroy Energy Center, LLC ("Gilroy"); Los Esteros
12 Critical Energy Facility, LLC ("Los Esteros"); Yuba City Energy Center, LLC ("Yuba
13 City"); Metcalf Energy Center, LLC ("Metcalf"); Lambie Energy Center, LLC ("Lambie");
14 Goose Haven Energy Center, LLC ("Goose Haven"); Creed Energy Center, LLC ("Creed");
15 King City Energy Center, LLC ("King City"); Feather River Energy Center, LLC ("Feather
16 River"); Riverview Energy Center, LLC ("Riverview"); Wolfskill Energy Center, LLC
17 ("Wolfskill"); and Delta Energy Center, LLC ("Delta") (collectively the "Generators").
18 Calpine Corporation owns all thirteen of the Generators.

19 4. With the exceptions of Delta and Los Medanos, the Agreements were entered
20 into post-petition between August 15, 2001 and October 26, 2002. Each Generator has
21 constructed or is in the process of constructing a new power facility which bears the same
22 name as the Generator. These facilities are collectively referred to as the "Calpine projects".

23 5. Prior to late 2001, it was unclear whether FERC would require PG&E to credit or
24 repay Generators for the funds advanced under the Agreements. Commencing in late 2001,
25 FERC, through a series of decisions, indicated that transmission owners must develop a
26 crediting mechanism to repay generators for funds advanced for upgrades. In later rulings,
27 discussed below, FERC directed PG&E to repay the Generators for funds advanced for
28 network upgrades (and not the tie line connecting the plant to the grid) when a new project

1 comes on line and to recover those funds subsequently through increased transmission rates¹.
2 These rulings affect thirteen Calpine projects constructed or under construction as well as
3 future projects.

4 6. When FERC gave preliminary indications commencing late 2001 that utilities
5 would be required to develop crediting mechanisms to repay the advances and recover the
6 repayment through the adjustment of transmission rates, FERC conducted extensive
7 proceedings and issued binding orders. FERC has ruled that other transmission owners must
8 provide similar credits to generators, and that these rules apply prospectively even when an
9 agreement with the generator had been previously accepted by FERC which directly
10 assigned these costs to the generator.

11 7. PG&E seeks authority to make repayments in compliance with FERC orders.
12 PG&E has filed or will file requests for rehearing on the FERC rulings requiring repayment
13 to Los Medanos and Delta because the GSFA's for both generators directly assigned the cost
14 of these upgrades to Calpine and had been filed and accepted by FERC. While PG&E
15 continues to dispute repayment to two of the thirteen Calpine Projects, no stay of the FERC
16 orders has been granted. PG&E is obligated to obey the orders and commence repayment.
17 PG&E does not dispute repayment for the remaining eleven Calpine Projects.

18 8. The FERC-ordered repayments are divided into three categories: (1) to
19 Generators for funds advanced to PG&E prior to the filing of this Chapter 11 case; (2) to
20 Generators for funds advanced post-petition to PG&E; and, (3) to Generators for funds not
21 yet advanced under interconnection agreements.

22 9. FERC-ordered repayments pertaining to the Los Medanos and Delta Projects may
23 constitute payment on account of funds advanced by these Generators prior to the filing of
24 this Chapter 11 case. PG&E's records indicate that Los Medanos advanced \$500,000 on
25 February 25, 2000 and \$3,408,000 on November 24, 2000 and that Delta advanced \$100,000

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27 ¹Although PG&E will ultimately recover the amounts of the repayments to Generators
28 through increased transmission rates, such recovery will require a significant period of time,
as the facilities are depreciated under schedules set by FERC.

1 on June 19, 2000 and \$500,000 on October 20, 2000². PG&E disputes repayment of
2 advances to Los Medanos and Delta solely because the GSFA's for both generators had been
3 filed and accepted by FERC.

4 10. Certain FERC Orders, and specifically 102 FERC ¶61,070 issued January 29,
5 2003 and 102 FERC ¶61,232 issued February 27, 2003 attached to the Motion as Exhibits
6 A and B, ordered PG&E to repay the Generators.

7 11. PG&E filed credit mechanisms which provide in part for repayment through
8 monthly installments with interest at the rate specified by FERC amortized over a period of
9 five years. The thirteen Calpine projects and estimated amounts of repayment for each are
10 as follows:

11	Los Medanos	\$3,904,000
12	Gilroy	1,355,000
13	Los Esteros	887,000
14	Yuba City	3,882,200
15	Lambie	1,206,167
16	Goose Haven	1,206,167
17	Creed	1,206,167
18	King City	298,050
19	Feather River	2,550,000
20	Metcalf	6,461,600
21	Riverview	660,000
22	Wolfskill	1,100,000
23	Delta	18,490,000
24	Total	\$43,206,351

25 These amounts will be trued up to actual cost, and interest will be added.

26 12. Payments due under the FERC orders are estimated to be approximately
27 \$9,000,000 per year for five years, assuming that each project comes on line. The FERC
28 orders provide that payments begin 60 days after the latter of (a) the date FERC issues its
order directing a credit and (b) the project begins commercial operations. Orders also
provide an opportunity for PG&E to obtain approval of this Court. Although PG&E
continues to seek relief from the orders requiring repayment to Los Medanos and Delta

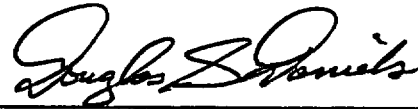
²Additional advances were made by Delta post-petition in the sum of \$17,890,000.

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& RAEKIN
Attorneys at Law

1 through requests for rehearing before FERC, requests for stay have not been granted.

2 13. The orders on January 29, 2003 and February 27, 2003 require repayment to
3 commence immediately for ten Calpine Projects, all of the projects other than Metcalf,
4 Riverview, and Wolfskill, since these facilities have begun commercial operations. PG&E
5 seeks authority to commence repayment in accordance with the FERC orders without
6 prejudice to PG&E's right to recover such payments if FERC vacates its order pertaining to
7 Los Medanos and Delta.

8 I declare under penalty of perjury under the laws of the United States of America that
9 the foregoing is true and correct. Executed this 19th day of March, 2003 at San Francisco,
10 California.

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13 DOUGLAS G. DANIELS

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