

50-275/1323

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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.

Case No. 01-30923 DM  
Chapter 11 Case  
Date: September 16, 2003  
Time: 1:30 p.m.  
Place: 235 Pine Street, 22nd Floor  
San Francisco, California

Federal I.D. No. 94-0742640

HOWARD  
RICE  
NEMEROVSKI  
CANADY  
FALK  
& RABKIN  
A Professional Corporation

DECLARATION OF HUDSON T. MARTIN IN SUPPORT OF MOTION OF PACIFIC  
GAS AND ELECTRIC COMPANY FOR ORDER AUTHORIZING USE OF CASH  
COLLATERAL TO MAINTAIN WORKERS' COMPENSATION COLLATERAL IN  
COMPLIANCE WITH APPLICABLE LAW

BKR101

1 I, Hudson T. Martin, declare as follows:

2 1. I am the Director of the Insurance Department for PG&E Corporation,  
3 parent company of Pacific Gas and Electric Company, debtor and debtor in possession  
4 herein ("PG&E"), a position I have held since 1991. In such capacity, I am responsible for  
5 providing insurance and related risk-management services to PG&E, and managing the  
6 company's surety bond program. My department is responsible for filing applications to  
7 establish PG&E's self-insured status with local, state and federal agencies.

8 2. This Declaration is based on my personal knowledge of PG&E's operations  
9 and financial position. If called as a witness, I could and would testify competently to the  
10 facts stated herein.

11 3. I make this declaration in support of PG&E's motion for Order Authorizing  
12 Use of Cash Collateral to Maintain Workers' Compensation Collateral in Compliance with  
13 Applicable Law (the "Motion").

14 4. PG&E, an employer of thousands of employees, has been granted a  
15 Certificate of Consent to Self-Insure (the "Certificate") by the State of California  
16 Department of Industrial Relations (the "State"). Pursuant to the Certificate, PG&E self-  
17 insures its workers' compensation liabilities in California. Self-insurance is the lowest cost  
18 and most efficient method of handling these obligations.

19 5. As a condition of self-insurance, PG&E must provide certain collateral with  
20 the State to cover the future liabilities of the self-insured program in the event that PG&E  
21 defaults on its obligations to pay benefits. The current collateral requirement is  
22 \$347,686,313. PG&E currently has five surety bonds totaling \$365,000,002 in place to  
23 satisfy this requirement. Collateral requirements are adjusted annually. Since the filing of  
24 the Chapter 11 case, PG&E has maintained the required level of security by posting surety  
25 bonds as collateral.

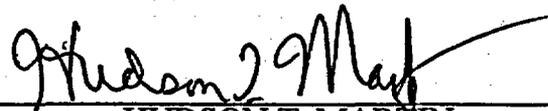
26 6. On July 16, 2003, PG&E received notification from the State (the "July 16,  
27 2003 Letter") that the issuer of one of the surety bonds posted as collateral for such future  
28 claims has failed to maintain an acceptable credit rating as required by the California Code

1 of Regulations. PG&E is required to replace that collateral within 60 days of the July 16,  
2 2003 notification date or risk revocation of the Certificate. In order to provide such financial  
3 assurances, PG&E will need to use cash or cash equivalents to replace the \$60 million surety  
4 bond that no longer meets the State's financial strength requirements. PG&E seeks authority  
5 from the court to use \$42,686,311 of cash collateral for this purpose as is necessary to  
6 comply with applicable State regulations and with California Labor Code §3701.

7 7. Acceptable forms of collateral as defined in California Labor Code §3701  
8 include cash, securities, surety bonds, or irrevocable letters of credit. While prior to the filing  
9 of the Chapter 11 case, PG&E typically provided such financial assurances in the form of  
10 surety bonds, it no longer has the ability to obtain such bonds on an unsecured basis.  
11 Procedures of using securities for collateral are complex, costly and compliance with the 60  
12 day deadline would be difficult. Letters of credit arrangements are costly and would require  
13 time consuming procedures.

14 8. PG&E must provide adequate replacement security on or before September  
15 15, 2003 and has determined that it will be required to post cash for the required security.  
16 PG&E intends to use cash as it believes that cash represent the most cost-effective and  
17 readily available method for providing the necessary financial assurances.

18 I declare under penalty of perjury under the laws of the United States of America  
19 and the State of California that the foregoing is true and correct. Executed this 15 day of  
20 August, 2003 at San Francisco, California.

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HUDSON T. MARTIN

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