

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

JAMES L. LOPES (No. 63678)
JANET A. NEXON (No. 104747)
BARBARA GORDON (No. 52424)
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

50-275
323

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: September 10, 2003
Time: 9:30 a.m.
Place: 235 Pine Street, 22nd Floor
San Francisco, California
Judge: Hon. Dennis Montali

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

DECLARATION OF MICHAEL J. DONNELLY IN SUPPORT OF
PG&E'S MOTION FOR AUTHORITY TO PAY FEES OF DESIGNATED
UNDERWRITERS' COUNSEL

BKRPD1

1 I, Michael J. Donnelly, declare as follows:

2 1. I am the Assistant Treasurer of Pacific Gas and Electric Company, a position that
3 I have held since September of 2000. Except as otherwise indicated, I make this declaration
4 based upon my personal knowledge concerning the matters stated herein. If called as a
5 witness, I could and would testify competently to the facts stated herein.

6 2. I make this declaration in support of PG&E's Motion for Authority to Pay Fees of
7 Designated Underwriters' Counsel (the "Motion").

8 3. PG&E, together with its parent corporation, PG&E Corporation ("Parent"), and
9 the Official Committee of Unsecured Creditors (the "Committee") have jointly proposed a
10 Plan of Reorganization (the "Plan"). The Disclosure Statement for the Plan (the "Disclosure
11 Statement") was approved by the Court on July 31, 2003. The confirmation hearing has
12 been scheduled to commence on November 3, 2003.

13 4. A significant component of the Plan involves the issuance of debt securities by
14 the Reorganized Debtor as a means of financing the implementation of the Plan. The Plan
15 provides for the Reorganized Debtor to issue and sell new debt securities in the original
16 principal amount of approximately \$8.7 billion, subject to adjustments (the "New Money
17 Notes"), the general terms of which are set forth on the Summary of Terms of Debt
18 Securities, Exhibit A to the Plan. PG&E will utilize the services of underwriters in
19 connection with the financing. The underwriters' services will include assisting in
20 structuring and marketing the New Money Notes to be sold to investors. As is customary in
21 offerings of securities and in order to satisfy certain statutory requirements under the federal
22 securities laws, the underwriters, together with their counsel, will conduct a due diligence
23 investigation of the issuer of the securities. Under the proposed settlement agreement
24 between PG&E, Parent and the California Public Utilities Commission, PG&E would agree
25 to name UBS Warburg LLC and Lehman Brothers as exclusive bookrunners and lead
26 managers ("Underwriters").

27 5. PG&E has designated Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden")
28 to act as underwriters' counsel ("Underwriters' Counsel"). In this capacity, Skadden's

1 services may include: (i) reviewing, drafting and/or negotiating the legal documentation,
2 including the registration statement and related prospectus to be filed with the Securities and
3 Exchange Commission ("SEC") by PG&E for the offerings of New Money Notes to the
4 public; and (ii) conducting the due diligence investigation of PG&E as the issuer of the debt
5 securities being sold to the public. Specifically, Skadden will be responsible for reviewing
6 and assisting in revising the registration statement and prospectus for the offerings of New
7 Money Notes for, among other things, compliance with federal and state laws, rules and
8 regulations relating to registered securities offerings as well as the descriptions of the debt
9 securities and the underwriting arrangements. In connection with the preparation of the
10 registration statement, Skadden will assist with the due diligence investigation of PG&E,
11 which will consist of a review of PG&E's material contracts, financing arrangements,
12 materials relating to pending or threatened litigation, environmental reports and assessments
13 and other materials, and will meet with members of the PG&E's management and external
14 auditors to discuss business, legal and financial affairs. Skadden will also be responsible for
15 drafting, reviewing and/or negotiating the underwriting agreements, indentures and other
16 legal documents relating to issuance and sale of the New Money Notes. I am informed and
17 believe and thereupon allege that in connection with the offerings, Skadden will also provide
18 the Underwriters with customary legal opinions with respect to matters relating to the
19 offerings as well as a "negative assurance" letter providing the Underwriters with assurance
20 that Skadden has no reason to believe that the registration statement or the prospectus
21 contain any untrue statement or omission of a material fact. Skadden will also be
22 responsible for reviewing the "comfort letter" provided by PG&E's external auditors,
23 covering the audited and unaudited financial information to be included in the registration
24 statement.

25 6. Skadden will not represent PG&E in an attorney/client relationship with respect
26 to its services as Underwriters' Counsel, although Skadden will continue to act as special
27 regulatory counsel to PG&E.

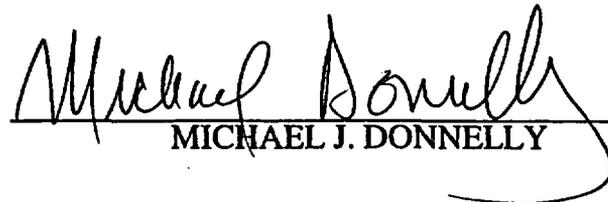
28 7. Conditions precedent to the effectiveness of the Plan include the consummation

1 of the sale of the New Money Notes by the Reorganized Debtor as contemplated by the Plan.
2 Preparing the registration statement for securities offerings involves substantial legal work to
3 ensure that the disclosure contained therein is fair and accurate and complies with the
4 securities laws, rules and regulations. Once the registration statement is filed, there may be a
5 lengthy SEC review process for the securities offerings before the registration statement is
6 declared effective. Skadden, pursuant to its previous employment in this case, has devoted
7 material time and attention to this process, albeit in connection with a prior plan. In order to
8 meet the foregoing conditions precedent to the effectiveness of the Plan, the legal work by
9 Underwriters' Counsel must be recommenced now in connection with the Plan. This legal
10 work will include the time-consuming and complex process of participating in the
11 preparation of the registration statement and conducting the due diligence investigation,
12 which will also require substantial coordination with the issuer and its counsel.

13 8. It is customary for the issuer to pay for the underwriters' legal fees in connection
14 with complex debt offerings such as those involved under the Plan.

15 9. I am informed and believe that sound business justifications support PG&E's
16 request to pay the legal fees of Underwriters' Counsel. It is necessary that the time-
17 consuming and complex legal work to be performed by Underwriters' Counsel be done
18 promptly in order for PG&E to ensure that it can timely meet the conditions precedent to the
19 effectiveness of the Plan. Because the issuer's payment of such fees is a common business
20 practice for complex debt offerings, PG&E believes that it is necessary to pay these costs in
21 furtherance of implementation of the Plan. PG&E is solvent and has sufficient cash to pay
22 these expenses without causing any detriment to its creditors.

23 I declare under penalty of perjury under the laws of the United States of America that
24 the foregoing is true and correct. Executed this 21 day of August, 2003, at San Francisco,
25 California.

26 
27 MICHAEL J. DONNELLY
28

WD 081903/1-1419995/1097177/v1

DONNELLY DECL. ISO PG&E'S MOT. FOR AUTHORITY TO PAY FEES OF DESIGNATED UNDERWRITERS' COUNSEL