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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 Case No. 01-30923 DM

21 Chapter 11 Case

22 [No Hearing Scheduled]

23 Federal I.D. No. 94-0742640

24 **DECLARATION OF DAVID E. RUBIN IN SUPPORT OF PG&E'S EX PARTE**  
25 **APPLICATION FOR ORDER AUTHORIZING SETTLEMENT AND WITHDRAWAL**  
26 **OF CLAIM OF LAGUNA IRRIGATION DISTRICT**

27 I, David Rubin, declare:

28 1. I am employed by Pacific Gas and Electric Company, the debtor and debtor in  
possession in the above-captioned Chapter 11 case (the "Debtor" or "PG&E"), as the  
Director of its Service Analysis Department. I make this Declaration in support of PG&E's  
Ex Parte Application for Order Authorizing Settlement and Withdrawal of Claim of Laguna  
Irrigation District (the "Application"). Except as otherwise expressly stated, all capitalized  
words and terms used in this declaration have the meanings ascribed to them in the  
Application. I have been actively involved in negotiating the settlement with the Laguna

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1 Irrigation District ("Laguna") as described in the Application, including the Litigation and  
2 related dealings with Laguna. The facts stated in this declaration are based on my personal  
3 knowledge, except for any matters stated on information and belief, and as to such matters, I  
4 am informed and believe they are true. If called as a witness, I could and would testify  
5 competently to the facts stated herein.

6 2. The Settlement Agreement between PG&E and Laguna, attached hereto as  
7 Exhibit A and incorporated herein and described in the Application, represent the parties'  
8 comprehensive settlement of various disputes between them. The Settlement provides for  
9 resolution of (a) Laguna's antitrust action against PG&E (Laguna Irrigation District v.  
10 PG&E, United States District Court for the Eastern District of California Case No. CIVF-00  
11 5967 AWI SMS); (b) Laguna's eminent domain action against PG&E (Laguna Irrigation  
12 District v. PG&E, Kings County Superior Court Case No. 99C0952); and (c) PG&E's  
13 breach of contract action against Laguna (PG&E v. Laguna Irrigation District, San Francisco  
14 Superior Court Case No. CGC-02-406259) (collectively, the "Litigation"). Under the  
15 Settlement, among other terms, the parties shall dismiss their respective lawsuits, Laguna  
16 shall pay PG&E up to \$1 million, and Laguna shall withdraw all Claims.

17 **The Dispute Resulting In The Settlement Agreement Covered By This Application:**

18 3. Commencing in 1996, Laguna sought to become a public power enterprise by  
19 (a) contracting with Power Exchange Corporation ("PXC") to utilize PXC's Control Area  
20 Transmission Service Agreement and installing service drops from PG&E's distribution  
21 lines to selected customers (the "Service Drop Plan"), (b) suing PG&E in eminent domain to  
22 condemn certain of PG&E's electric distribution facilities and (c) entering into an Energy  
23 Service Provider Service Agreement ("ESP Agreement") with PG&E to permit Laguna to  
24 sell power to Direct Access customers. PG&E questioned the legality of Laguna's Service  
25 Drop Plan, and refused to proceed with Laguna's interconnection request pending the  
26 resolution of the objections that PG&E filed with the Federal Energy Regulatory  
27 Commission ("FERC"). Laguna subsequently sued PG&E in Fresno federal District Court  
28 for alleged antitrust and tortious conduct (the "Antitrust Case").

1           4. In 1997, as an alternative means to becoming a public power enterprise,  
2 Laguna resolved to condemn certain PG&E electric distribution facilities within the  
3 District's borders, and filed an action in eminent domain against PG&E in 1999 (the  
4 "Condemnation Case"). Laguna amended its complaint in 2000 in an effort to condemn all  
5 the PG&E distribution facilities within the District and some outside it.

6           5. In 1998, as another means of becoming a public power enterprise, Laguna  
7 entered into an ESP Agreement with PG&E, by which it agreed to, among other things, (a)  
8 generate, purchase, or otherwise procure power for its Direct Access customers, and (b)  
9 obtain a Scheduling Coordinator to schedule that Direct Access load with the Independent  
10 System Operator ("ISO"). In 2002, PG&E filed suit against Laguna, alleging that Laguna  
11 breached the parties' ESP Agreement by, among other things, failing to pay for power and/or  
12 schedule load with the ISO (the "ESP Case").

13           6. In mid-2002, PG&E and Laguna agreed to stay the Litigation while they  
14 negotiated a global settlement. All three cases remain stayed.

15           7. Laguna, having spent more than five years and significant financial and other  
16 resources attempting to become a public power enterprise, now wishes to restore its fiscal  
17 health, exit the electric business, and refocus its efforts on its water enterprise.

18           8. Both Laguna and PG&E seek to eliminate the risk of potential liability  
19 associated with the Litigation and minimize the substantial legal and consulting costs that  
20 would be necessarily associated with litigating these cases.

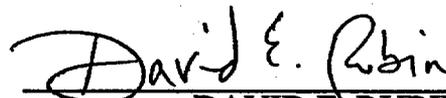
21           9. The principal terms of the Settlement provide for dismissal of the Litigation  
22 and the withdrawal of all claims by Laguna. Laguna shall pay up to \$1 million to PG&E  
23 over the next 20 years by payment to PG&E of \$50,000 per year; however, PG&E will  
24 forego the last ten scheduled payments provided Laguna, among other things, timely makes  
25 the first ten payments (totaling \$500,000) and refrains from adopting a Resolution of  
26 Necessity to condemn any PG&E property (except for rights-of-way necessary for irrigation  
27 facilities) during that time.

1 **Sound Business Reasons For Settlement:**

2 10. There are a number of related but distinct sound business reasons why the  
3 proposed settlement and the resulting Settlement Agreement make eminent sense and are in  
4 the best interests of the Chapter 11 estate. The most important are summarized as follows.  
5 First, risk is inherent in litigation and there is substantial money at stake in the three cases at  
6 issue here. Moreover, regardless of which side prevails in each of the three cases, PG&E  
7 would necessarily incur substantial attorneys' fees to bring these cases to trial as well as to  
8 prosecute possible appeals. Moreover, PG&E would need to dedicate significant time and  
9 resources to this Litigation. Given these risks, along with the time and expense involved  
10 with preparing the cases for trial and conducting those trials, the Settlement is favorable and  
11 should be approved.

12 11. Second, the Settlement Agreement between the parties resolves serious  
13 disputes and permits avoidance of unnecessary litigation which will benefit PG&E's  
14 creditors by eliminating costs and delay, and instead allowing PG&E's personnel to focus on  
15 more critical functions. Moreover, the Settlement will eliminate any risk that PG&E will  
16 have to pay any money to Laguna in that it provides for the withdrawal of all claims of  
17 Laguna against PG&E. Finally, the Settlement provides a substantial benefit to the estate by  
18 eliminating potential liability with the dismissal of the Litigation with prejudice.

19 I declare under penalty of perjury under the Federal laws of the United States of  
20 America that the foregoing is true and correct, and that this declaration is executed on  
21 August 22, 2003 at San Francisco, California.

22   
23 \_\_\_\_\_  
24 DAVID E. RUBIN

25  
26  
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28  
WD 072403/1-1419913/1092070/v1

## SETTLEMENT AGREEMENT

WHEREAS, commencing in or about 1996, Laguna Irrigation District ("Laguna") sought to become a public power enterprise by (a) contracting with Power Exchange Corporation ("PXC") to utilize PXC's Control Area Transmission Service Agreement ("CATSA") and installing service drops from Pacific Gas and Electric Company's ("PG&E") distribution lines to selected customers ("the Service Drop Plan"), (b) suing PG&E in eminent domain to condemn certain of PG&E's electric distribution facilities ("the Condemnation"), and (c) entering into an Energy Service Provider Service Agreement ("ESP Agreement") with PG&E to serve as an Energy Service Provider ("ESP") for Direct Access ("DA") customers ("the ESP Business");

WHEREAS, Laguna and PG&E disagreed as to the legality of the Service Drop Plan; PG&E submitted objections to Laguna's Service Drop Plan at the Federal Energy Regulatory Commission ("FERC") and declined to interconnect Laguna until FERC ruled on PG&E's objections; and Laguna sued PG&E (as well as PXC) in Fresno federal District Court for alleged antitrust and tortious conduct ("the Antitrust Case");

WHEREAS, in 1997, Laguna resolved to condemn certain PG&E electric distribution facilities within the District's borders (referred to as "Distribution System No. 2"), but did not sue for condemnation until 1999; and then, in 2000, changed its plan to condemn nearly all the PG&E distribution facilities within the District and some outside it ("the Condemnation Case");

WHEREAS, per the 1998 PG&E-Laguna ESP Agreement, which went into effect March 5, 1999, Laguna agreed to generate, purchase, or otherwise procure power for its DA customers, obtain a Scheduling Coordinator ("SC") to schedule that DA load with the Independent System Operator ("ISO"), and provide PG&E with settlement-ready data;

WHEREAS, PG&E alleged Laguna materially breached the parties' ESP Agreement and PG&E's Electric Rules 17.2 and 22; PG&E accordingly terminated the ESP Agreement and returned Laguna's former DA customers to bundled PG&E service; and PG&E filed suit against Laguna (and its ESP Consultant, Provost & Pritchard Engineering Group, Inc. ("Provost")) in San Francisco Superior Court, and alleged damages plus interest ("the ESP Case"), plus reimbursement of PG&E's audit costs pursuant to the ESP Agreement and the costs PG&E incurred to return Laguna's former DA customers to PG&E bundled service; and

WHEREAS, Laguna spent more than five years and significant financial and other resources attempting to become a public power enterprise, and Laguna now wishes to restore its fiscal health, exit the electric business, and refocus its efforts on its Water Enterprise;

NOW, WHEREFORE, PG&E and Laguna seek to eliminate the risk of potential liability associated with the foregoing litigation, as described above, including but not limited to the Antitrust Case, the Condemnation Case, and the ESP Case; and minimize the substantial legal and consulting costs that would necessarily be associated with litigating these cases;

ACCORDINGLY, subject to approval by the United States Bankruptcy Court hearing PG&E's Chapter 11 case, PG&E and Laguna hereby agree to compromise the Antitrust Case, the Condemnation Case, and the ESP Case (collectively, "the Litigation") as set forth herein. This Settlement Agreement shall not become effective until an order by the Bankruptcy Court approving

this Settlement Agreement becomes final (the "Effective Date"). Accordingly, within 30 days of executing this Settlement Agreement, the Parties agree to cooperate and jointly seek Bankruptcy Court approval of this Settlement Agreement, as follows:

1. Laguna agrees it shall pay PG&E \$1,000,000, with payments to be made as follows:

(a) Laguna shall pay PG&E \$50,000, not later than December 20, 2003;

(b) Laguna shall pay PG&E \$50,000 on the first business day of 2005, and on the first business day of each succeeding year, through and including the year 2023 (hereafter, "the Annual Payment(s)).

2. If Laguna makes the scheduled payments described in paragraph 1, makes the "Additional Revenues" payments described in paragraph 3, and has not adopted a Resolution of Necessity to condemn any PG&E property (with the specific exception of rights-of-way necessary for irrigation facilities, for which Laguna may adopt Resolutions of Necessity without triggering this provision), then PG&E agrees that beginning on December 20, 2003, and on the first business day of 2005 and each succeeding year through and including 2023, it shall forego the final remaining Annual Payment due to it. Consequently, in the event Laguna makes the payments due and has not acted to condemn any PG&E property (other than rights-of-way necessary for irrigation facilities, as excepted above) between the Effective Date and the time Laguna makes its Annual Payment to PG&E in January 2013, then Laguna will have paid PG&E \$500,000 and PG&E will have foregone \$500,000 in payment.

(a) At its election, Laguna may make any of the Annual Payments due to PG&E under paragraph 1 earlier than the dates indicated. However, such pre-payments shall not alter or otherwise affect any other provision of this Agreement. Specifically, PG&E's forbearance of future Annual Payments, as set forth in this paragraph 2, shall be effective as of the final date on which each such Annual Payment(s) is due (e.g., December 20, 2003, January 1, 2005, January 1, 2006, etc.), not on the date paid.

3. Laguna has represented its Water Enterprise presently collects approximately \$543,000 in annual total operating revenues (per Laguna's 2002 financial statements), and that it cannot afford to pay PG&E more than the amounts set forth above to settle the Litigation. In reliance on this representation, PG&E has agreed to compromise the Litigation as described above.

(a) In 2002, Laguna had Total Operating Revenues of \$786,265, as set forth at page 3, line 7 of its audited 2002 Financial Statement. Laguna agrees that in the event it collects in excess of \$850,000 in Total Operating Revenues in any calendar year from 2003 through and including 2023 ("Additional Revenues"), then PG&E shall be entitled to 25 percent of such Additional Revenues. Laguna agrees it shall make payment to PG&E of the Additional Revenues due to PG&E and described herein by March 1<sup>st</sup> of the ensuing year.

(i) The Total Operating Revenues threshold of \$850,000 shall be adjusted annually by the same percentage change published for December in the All Urban Consumers (All West) Index of the Consumer Price Index, based on an index published for December, 2002 of 185.5.

(b) Laguna agrees that in the event it receives any money to resolve any third party claims related to the Antitrust Case, the Condemnation Case, and/or the ESP Case ("Third

Party Funds"), then PG&E shall be entitled to 50 percent of such Third Party Funds. Third Party Funds shall not include either (a) discounts on fees Laguna allegedly owes its consultants for work related to the Antitrust Case, Condemnation Case, or ESP Case, or (b) funds that third parties pay to Laguna which it uses to reduce obligations related to the Antitrust Case, Condemnation Case or ESP Case, where such funds are provided to Laguna prior to January 1, 2004. In the event the parties fail to obtain Bankruptcy Court approval within 60 days of submitting this Settlement to the Bankruptcy Court for its approval, the January 1, 2004 deadline provided here shall be extended by the number of additional days (i.e., beyond 60) the parties take to obtain such approval. Laguna agrees it shall notify PG&E of its receipt of such funds within 5 days of receipt, and shall make payment to PG&E of the Third Party Funds due to PG&E and described herein within 60 days of Laguna's receipt of such Third Party Funds.

(c) Any payments under subparagraphs 3(a) and/or 3(b) shall be in addition to the payments set forth in paragraphs 1 and 2 above, and not in lieu of such payments. However, Laguna's total payments to PG&E under paragraphs 1, 2, and 3 are not to exceed \$1,000,000 ("Maximum Payment"). In the event PG&E foregoes one or more of Laguna's Annual Payments pursuant to Paragraph 2 above, then Laguna's Maximum Payment shall be reduced a corresponding amount. For example, if PG&E foregoes Laguna's 2023 Annual Payment pursuant to Paragraph 2, then Laguna's Maximum Payment shall be reduced by \$50,000 to \$950,000; if PG&E foregoes Laguna's 2022 and 2023 Annual Payments pursuant to Paragraph 2, then Laguna's Maximum Payment shall be reduced by \$100,000 to \$900,000. Laguna's payment of interest, due as a result of untimely payment(s) as set forth in Paragraph 4 below, shall not be considered in calculating Laguna's Maximum Payment.

4. All payments by Laguna shall be made by mail, and postmarked no later than the date on which payment is due pursuant to this Settlement Agreement. In the event Laguna is untimely in satisfying any of its payment obligations, PG&E shall be entitled to 10 percent annual interest on the overdue payment(s), such interest compounded daily.

5. Laguna shall provide PG&E with copies of its audited financial statements for 2003 and each succeeding year through and including the year in which Laguna makes its final Annual Payment to PG&E, within 45 days of Board acceptance of said audited financial statements.

6. Laguna hereby agrees it shall dismiss with prejudice its Antitrust Case against PG&E and PXC within 10 business days of a final Bankruptcy Court order approving this settlement;

(a) PG&E and Laguna agree each shall pay its own attorney's fees and costs incurred in litigating the Antitrust Case. Laguna shall be solely responsible for any and all legal fees, costs, and/or other payments owed under its retention agreement with Blecher and Collins for the Antitrust Case. Laguna shall indemnify PG&E from any claim from PXC related to the prosecution or dismissal of the Antitrust Case.

7. Laguna hereby agrees it shall dismiss with prejudice its Condemnation Case against PG&E within 10 business days of a final Bankruptcy Court order approving this settlement;

(a) The parties agree PG&E incurred significant attorney's fees and costs in the litigation, including but not limited to defending the Condemnation Case. PG&E's claimed Condemnation Case costs include but are not limited to those costs PG&E incurred in conducting a field inventory, a load study, and an interconnection impact study, as well as for court reporting, filing, service, and other fees. Laguna's payment of PG&E's litigation expenses, arising from or

relating to the Condemnation Case, whether in whole or in part, shall be paid as part of, and not in addition to, the amounts described in Sections 1 through 3 above, and no additional amounts shall be due to PG&E for such litigation expenses.

8. (a) Laguna agrees that within 30 business days of the Effective Date, it shall produce the following documents to PG&E:

(i) any and all originals and/or copies in the possession, custody, or control of Laguna and/or its attorneys and consultants of any PG&E documents that PG&E provided Laguna but that Laguna failed to return to PG&E, including but not limited to PG&E circuit maps, customer usage data, inventories, valuations, appraisals, and computer files. Laguna agrees it shall not retain any copies of any of the foregoing documents; and

(ii) copies of any reports, analyses, appraisals, and billing statements of Chevron Energy Solutions.

(b) Laguna agrees to exercise good faith efforts in gathering, obtaining, and producing the documents described below ("the Documents") to PG&E:

(i) any appraisals supporting Laguna's electric facilities condemnation offers;

(ii) any valuations supporting Laguna's electric facilities condemnation offers;

(iii) any studies, reports, and analyses concerning "Replacement Cost New Less Depreciation;"

(iv) any feasibility studies, reports, and analyses concerning Laguna's electric facilities condemnation plans, with the express exception of analyses Laguna's attorneys prepared for Laguna;

(v) any feasibility studies, reports, and analyses concerning Laguna's entry into Direct Access;

(vi) any feasibility studies, reports, and analyses concerning Laguna's service drop plan;

(vii) any reports, analyses, appraisals, and billing statements of Reed Schmidt, Bartle Wells Associates, Gary Olson, Vince McNamara, EPSI, Stuart Russell, Russell & Associates, Jeffrey Shields, Turlock Irrigation District, Provost & Pritchard, Michael Day, Kevin Fantz, and Jeff Villi, that were not produced to PG&E in discovery; and

(viii) all documents PG&E provided to Laguna during earlier settlement negotiations.

(c) Laguna's good faith efforts shall include the following:

(i) with respect to those of the Documents in Laguna's actual possession, Laguna shall produce said Documents to PG&E within 30 days of the Effective Date.

(ii) with respect to those of the Documents not in Laguna's actual possession, but alternatively in the possession, custody, or control of one or more of Laguna's energy consultants and/or attorneys:

(1) Laguna agrees to request in writing, within 30 days of the Effective Date, that said energy consultant(s) and/or attorney(s) produce all such Documents to Laguna, with said letter to be in the form attached hereto as Exhibit A. Laguna shall produce all such documents to PG&E within 15 days of receipt of such documents.

(2) If Laguna's energy consultant(s) and/or attorney(s) fail for any reason to produce all such Documents to Laguna as requested within 60 days of Laguna's written request, then, within 30 additional days of such failure, Laguna agrees to send a second written request to its energy consultant(s) and/or attorney(s), with said letter to be in the form attached hereto as Exhibit B. Laguna shall produce all such documents to PG&E within 15 days of receipt of such documents.

(3) If Laguna's energy consultant(s) and/or attorney(s) fail for any reason to produce all such Documents to PG&E as requested within 60 days of Laguna's second written request, then, within 30 additional days of this second failure, PG&E may request in writing that Laguna assign its rights and interests in said Documents to PG&E so that PG&E may pursue their collection from Laguna's energy consultant(s) and/or attorney(s). Laguna agrees it shall assign such rights and interests in said Documents to PG&E within 30 days of PG&E's request.

(d) Laguna waives any and all privileges that it holds concerning any and all documents produced under Section 8(a) or 8(b) as to PG&E only. Laguna shall not be required to produce or request production of attorney work product to PG&E.

9. PG&E hereby agrees it shall dismiss with prejudice its ESP Case against Laguna and Provost within 10 business days of a final Bankruptcy Court order approving this settlement;

(a) PG&E and Laguna agree each shall pay its own attorney's fees and costs incurred in litigating the ESP Case;

(b) In the event any third party, other than the California Public Utilities Commission, brings any claims, demands, or causes of action against PG&E, which claims, demands, or causes of action arise out of Laguna's alleged conduct in the Antitrust Case, the Condemnation Case, and/or the ESP Case, then Laguna agrees it shall indemnify PG&E and hold PG&E harmless with respect to any related damages, penalties, costs, expenses, attorney's fees, and/or liabilities of any nature, whether based in contract, tort, statute, or other legal or equitable theory of recovery.

(c) Laguna specifically releases PG&E from any and all claims for any ESP-related payments or funds, including but not limited to PX credits, CTC credits or exemptions, E-Exempt credits and/or customer payments;

(d) Any payments Laguna makes under this paragraph 9 shall be in addition to the payments it makes to PG&E under paragraphs 1, 2, and 3 above, and not in lieu of such payments.

10. PG&E and Laguna agree (i) they shall stipulate to the entry of a judgment containing the settlement terms agreed to herein as set forth in Exhibit C, and (ii) the San Francisco County

Superior Court ("Court") shall have jurisdiction to fully enforce the settlement if necessary. The Court shall have jurisdiction to enforce all of the terms of this Agreement, regardless of whether a particular term derives from, or allegedly derives from, the Antitrust Case, the Condemnation Case, or the ESP Case. Either party may enforce the stipulated judgment upon 15 days notice to the other at any time. In the event either party acts to enforce the Agreement, the prevailing party to that enforcement action shall be entitled to collect the attorneys' fees and costs it incurs therein.

11. Laguna agrees that within 5 business days of the Effective Date it will withdraw all Proofs of Claim it filed in PG&E's bankruptcy case, including but not limited to Claim No. 8240.

12. Within 10 business days of execution of this Settlement Agreement, (a) Laguna's counsel shall provide PG&E written notice that (i) Laguna approves the Settlement Agreement as to form and (ii) counsel has recommended Laguna approve the settlement; and (b) Laguna shall pass a resolution approving the Settlement Agreement.

13. With the execution of this Agreement, Laguna does for itself, its officers, directors, agents, employees, attorneys, consultants, representatives, affiliates, predecessors, successors and assigns hereby release and forever discharge PG&E and its officers, directors, agents, employees, attorneys, consultants, representatives, parent corporation, subsidiaries, affiliates, predecessors, successors and assigns from any and all claims, demands, causes of action, obligations or liabilities of any nature whatsoever (including attorneys' fees and costs of suit), whether known or unknown, which, as of the date of this Agreement, it ever had or now has against PG&E relating to the Litigation, including, without limiting the generality of the foregoing, all such claims, demands, causes of action, obligations or liabilities which in any way relate to or arise out of any action, omission, representation, or proceeding with respect to the matters which were raised or which could have been raised in the Litigation.

14. With the execution of this Agreement, PG&E does for itself, its shareholders, officers, directors, agents, employees, attorneys, consultants, representatives, subsidiaries, affiliates, predecessors, successors and assigns hereby release and forever discharge Laguna and its officers, directors, agents, employees, attorneys, consultants, representatives, affiliates, predecessors, successors and assigns from any and all claims, demands, causes of action, obligations or liabilities of any nature whatsoever (including attorneys' fees and costs of suit), whether known or unknown, which, as of the date of this Agreement, it ever had or now has against Laguna relating to the Litigation, including, without limiting the generality of the foregoing, all such claims, demands, causes of action, obligations or liabilities which in any way relate to or arise out of any action, omission, representation, or proceeding with respect to the matters which were raised or which could have been raised in the Litigation.

15. Laguna and PG&E each expressly acknowledge it may have claims against the other, of which claim(s) it is currently unaware, and nevertheless agrees this Agreement is intended to and does extend to any and all claims it may have against the other, whether known or unknown, that arise from the Litigation, and the matters alleged therein. As a further inducement and consideration, and subject to the foregoing exception, Laguna and PG&E expressly and specifically waive any rights or benefits available to them under California Civil Code section 1542, which provides:

**A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.**

Laguna and PG&E acknowledge each may have sustained damages, losses, costs or expenses that are currently unknown or unsuspected, and that such damages, losses, costs or expenses as may have been sustained may give rise to additional damages, losses, costs or expenses in the future. Each acknowledges, however, that this Agreement has been negotiated and agreed upon in light of this situation, and hereby expressly waives any and all rights which it may have under California Civil Code section 1542 or under any state or federal statute or common law principle of similar effect.

16. This Agreement is subject to approval of the Bankruptcy Court with jurisdiction over PG&E's Chapter 11 case and shall not become effective until a Bankruptcy Court order approving this Agreement becomes final.

17. Laguna and PG&E agree to execute any further documents that may be necessary or appropriate to effectuate this Agreement, Bankruptcy Court approval of this Agreement, the withdrawal of Laguna's Bankruptcy Claim(s), and the dismissal of the Litigation.

18. Each Party represents and warrants that it has neither made nor caused to be made any sale, assignment, transfer, conveyance, pledge, hypothecation, or encumbrance of any kind whatsoever of any right, claim, demand, obligation, cost, expense, sanction, grievance, action, cause of action, controversy, debt, damage, arbitration, liability, duty, penalty, attorney fee, charge, suit, punitive damage, injury, loss, agreement, contract, promise, or lien released, canceled, rescinded or discharged hereby, and that it is the sole and absolute legal and equitable owner thereof, free and clear of any interest of any other person or entity.

19. Each Party represents and warrants that it has given any and all notices, and obtained any and all consents, powers and authorities, necessary to permit it and the persons executing this Agreement for it, to enter into this Agreement, settle, compromise, and release the claims settled, compromised, and released herein, to do, undertake, or forebear from any act called for herein, and to make this Agreement, and all the provisions hereof, fully binding on and enforceable against that Party, including, without limitation thereto, any necessary notice to or consent or approval from its shareholders, creditors, Board of Directors, partners, members, managers, officers, or any similar person, entity, group or body, except that the Parties acknowledge that Bankruptcy Court approval of this Agreement must be obtained, which the Parties herein agree to cooperate to obtain.

20. None of the releases contained in this Agreement is intended to release any Party from any obligation or undertaking called for or to be performed pursuant to this Agreement, all of which obligations and undertakings shall survive the execution and delivery hereof.

21. Laguna and PG&E each agree it shall defend, indemnify and hold harmless the other party from any loss, claim, expense, demand or cause of action of any kind or character (including but not limited to claims and demands for attorneys' fees and legal costs) incurred directly or indirectly by reason of the falsity or inaccuracy of any representation it has made with respect to this Agreement.

22. Laguna and PG&E acknowledge the money paid and other valuable consideration provided for settlement is solely for the purpose of purchasing peace and preventing further involvement in protracted litigation between them. Neither the payment of money nor provision of any other consideration is or shall be construed to be an admission that any of the claims compromised or released by this Agreement is valid.

23. A waiver of any provision of this Agreement shall not be effective unless such a waiver is made expressly in writing. An express waiver of any one breach shall not be deemed a waiver of any other breach of the same or any other provision of this Agreement.

24. Laguna and PG&E represent they have been represented by counsel of their own choosing regarding the preparation and negotiation of this Agreement and all the matters and claims set forth herein, and that each of them has read this Agreement and is fully aware of its contents and its legal effect.

25. Notices may be given to the parties to this Agreement by mailing written notice, with first class postage prepaid, as follows (except as a party may provide written notice to all of the parties to this Agreement of a change of address):

LAGUNA IRRIGATION DISTRICT  
Attn: General Manager  
5065 19 ½ Avenue  
Riverdale, CA 93656

PACIFIC GAS AND ELECTRIC COMPANY  
Attn: David Rubin  
77 Beale Street, B30A - 891  
P.O. Box 7442  
San Francisco, CA 94120

26. The language of all parts of this Agreement shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against any party. No presumptions or rules of interpretation based upon the identity of the party preparing or drafting the Agreement, or any part thereof, shall be applicable or invoked.

27. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

28. This Agreement constitutes the entire agreement among the Parties and supersedes all prior understandings or agreements with respect to its subject matter.

29. This Agreement may not be altered, amended, modified or otherwise changed, except in writing duly executed by authorized representatives of each of the Parties.

30. Each provision of this Agreement shall be interpreted in such a manner as to be valid and enforceable under applicable law, but if any provision hereof shall be or become prohibited or invalid under any applicable law, that provision shall be ineffective only to the extent of such prohibition or invalidity, without thereby invalidating the remainder of that provision or of any other provision hereof.

31. This Agreement may be executed in counterparts, which taken together, will constitute an original. Facsimiles of original pages shall be binding on the Parties to the Agreement. The Parties shall exchange original signed counterparts as soon as possible.

IN WITNESS WHEREOF this Agreement is executed and agreed to by the following, as of the last date set forth below.

Approved as to form.

\_\_\_\_\_, 2003

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Attorneys for Pacific Gas and Electric Company

Approved as to form.

Aug 13, 2003

By: [Signature]  
Name: Ernest A. Conat of Young Woodbridge  
Attorneys for Laguna Irrigation District

PACIFIC GAS AND ELECTRIC COMPANY

\_\_\_\_\_, 2003

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Aug 20, 2003

LAGUNA IRRIGATION DISTRICT  
By: [Signature]  
Name: Mark M. Breen  
Title: PRESIDENT, LID

31. This Agreement may be executed in counterparts, which taken together, will constitute an original. Facsimiles of original pages shall be binding on the Parties to the Agreement. The Parties shall exchange original signed counterparts as soon as possible.

IN WITNESS WHEREOF this Agreement is executed and agreed to by the following, as of the last date set forth below.

Approved as to form.

August 20, 2003

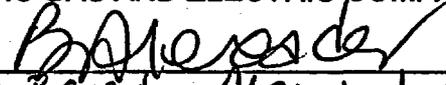
By:   
Name: CLIFFORD J. CLECHER  
Attorneys for Pacific Gas and Electric Company

Approved as to form.

\_\_\_\_\_, 2003

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Attorneys for Laguna Irrigation District

8/20, 2003

PACIFIC GAS AND ELECTRIC COMPANY  
By:   
Name: Beverly Alexander  
Title: VP Rates & Acct Service

\_\_\_\_\_, 2003

LAGUNA IRRIGATION DISTRICT  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

[DATE]

Dear \_\_\_\_\_:

This letter is provided on behalf of Laguna Irrigation District ("Laguna") for which this law firm serves as General Counsel.

Recently, Laguna and Pacific Gas and Electric Company ("PG&E") reached an agreement to settle certain litigation between them, and, pursuant to that agreement, Laguna is required to produce various documents to PG&E. I am informed you [your firm] provided services to Laguna in connection with its entry into the electric industry, its operation as an energy enterprise, its exit from the electric industry, and/or its litigation related to one or more of these subject matters, and therefore may possess documents Laguna is required to produce to PG&E. Accordingly, we hereby request you furnish this office with all documents that fit any of the document categories below and that were prepared after December 31, 1995. Please note Laguna is not obligated to produce work papers and/or drafts to PG&E, and you may therefore choose not to produce your work papers and/or drafts to Laguna. The document categories are:

1. any appraisals supporting Laguna's electric facilities condemnation offers;
2. any valuations supporting Laguna's electric facilities condemnation offers;
3. any studies, reports, and analyses concerning "Replacement Cost New Less Depreciation";
4. any feasibility studies, reports, and analyses concerning Laguna's electric facilities condemnation plans, with the express exception of analyses Laguna's attorneys prepared for Laguna;
5. any feasibility studies, reports, and analyses concerning Laguna's entry into Direct Access;
6. any feasibility studies, reports, and analyses concerning Laguna's service drop plan;
7. any reports, analysis, appraisals and billing statements that you submitted to Laguna;
8. all documents PG&E provided to Laguna during any settlement negotiations between them.

Please produce these documents within thirty (30) days of the above date. If you have any questions concerning this request or there is any reason you cannot timely comply with this request, please contact me immediately.

On behalf of the Laguna Irrigation District, we appreciate your cooperation with this request.

Very truly yours,

Ernest A. Conant

EAC:meh

EXHIBIT "A"

[DATE]

Dear \_\_\_\_\_:

This letter is provided on behalf of Laguna Irrigation District ("Laguna") for which we currently serve as General Counsel.

By letter dated \_\_\_\_\_, 2003, we advised you that Laguna and Pacific Gas and Electric Company ("PG&E") reached an agreement to settle certain litigation between them. In that letter, a copy of which is provided for your reference, we requested you furnish this office with certain documents by \_\_\_\_\_, but to date we have not received these [all such] documents from you. Accordingly, we again request you furnish this office with all documents that fit any of the document categories below and that were prepared after December 31, 1995. Please note Laguna is not obligated to produce work papers and/or drafts to PG&E, and you may therefore choose not to produce your work papers and/or drafts to Laguna. The document categories are:

1. any appraisals supporting Laguna's electric facilities condemnation offers;
2. any valuations supporting Laguna's electric facilities condemnation offers;
3. any studies, reports, and analyses concerning "Replacement Cost New Less Depreciation;"
4. any feasibility studies, reports, and analyses concerning Laguna's electric facilities condemnation plans, with the express exception of analyses Laguna's attorneys prepared for Laguna;
5. any feasibility studies, reports, and analyses concerning Laguna's entry into Direct Access;
6. any feasibility studies, reports, and analyses concerning Laguna's service drop plan;
7. any reports, analyses, appraisals, and billing statements you submitted to Laguna;
8. all documents PG&E provided to Laguna during any settlement negotiations between them.

Please produce these documents within thirty (30) days to the undersigned. If for some reason you cannot comply with this request, please contact me immediately.

Very truly yours,

Ernest A. Conant

EAC:meh

EXHIBIT "B"

Jan L. Kahn, #55788  
Rissa A. Stuart, #166459  
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219 N. Douty Street  
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Mark H. Penskar, #77725  
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77 Beale Street, B30A  
San Francisco, CA 94105  
Telephone: (415) 972-5672  
Facsimile: (415) 973-5520

Direct correspondence to:  
Clifford J. Gleicher  
P.O. Box 7442  
San Francisco, CA 94120  
Telephone: (415) 973-2095

Attorneys for Plaintiff  
PACIFIC GAS AND ELECTRIC COMPANY

SUPERIOR COURT OF THE STATE OF CALIFORNIA  
IN AND FOR THE CITY AND COUNTY OF SAN FRANCISCO

PACIFIC GAS AND ELECTRIC COMPANY,

Plaintiff,

v.

LAGUNA IRRIGATION DISTRICT, PROVOST &  
PRITCHARD ENGINEERING GROUP, INC., and  
DOES 1-100, inclusive,

Defendants.

Case No. CGC-02-406259

STIPULATION FOR JUDGMENT

EXHIBIT "C"

Plaintiff Laguna Irrigation District ("Laguna") and Defendant Pacific Gas and Electric Company ("PG&E") (collectively, "the Parties"), hereby stipulate as follows:

1. Pursuant to the Settlement Agreement ("Agreement") attached hereto and incorporated herein by reference, the Parties have reached a settlement of several lawsuits, including (a) PG&E v. Laguna Irrigation District, San Francisco Superior Court Case No. CGC-02-406259, (b) Laguna Irrigation District v. PG&E, United States District Court for the Eastern District of California Case No. CIVF-00 5967 AWI SMS, and (c) Laguna Irrigation District v. PG&E, Kings County Superior Court Case No. 99C0952. The Parties hereby stipulate that judgment shall be entered pursuant to the terms of the Agreement.

2. The Parties further stipulate the judgment shall become final for all purposes upon entry of judgment, and both PG&E and Laguna waive any right to appeal or seek review of this judgment by either a higher court or an administrative body.

3. Pursuant to Paragraph 10 of the Agreement, this Court has jurisdiction to enforce all of the terms of the Agreement, regardless of whether a particular term derives from, or allegedly derives from any one of the foregoing cases. PG&E and Laguna herein agree, however, that neither shall seek to have the Court act to enforce this judgment unless the other fails to comply with its terms. In the event either PG&E or Laguna alleges the other has not complied with the Agreement's terms, said party may seek to have the Court act to enforce this judgment upon 15 days notice to the other.

4. The judgment, as entered, shall conclude all claims between the Parties described in the Agreement, and shall have res judicata effect as to all claims that either PG&E or Laguna raised or could have raised.

5. The Parties hereby expressly waive notice of entry of judgment, notice of and right to any hearing regarding entry of judgment, and notice of default hereon. The Parties further stipulate that in the event of a default, a writ of execution may issue without a hearing.

////

EXHIBIT "C"

Dated: \_\_\_\_\_, 2003 PACIFIC GAS AND ELECTRIC COMPANY

By \_\_\_\_\_  
CLIFFORD J. GLEICHER  
Attorneys for Defendant  
PACIFIC GAS AND ELECTRIC COMPANY

Dated: \_\_\_\_\_, 2003 YOUNG, WOOLDRIDGE, LLP

By \_\_\_\_\_  
ERNEST A. CONANT  
Attorneys for Plaintiff  
LAGUNA IRRIGATION DISTRICT

**ORDER**

IT IS HEREBY ORDERED that Judgment be entered pursuant to the terms of the Settlement Agreement attached hereto and incorporated herein by reference.

Dated: \_\_\_\_\_, 2003 \_\_\_\_\_  
HONORABLE JUDGE OF THE SUPERIOR COURT

EXHIBIT "C"

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San Francisco, CA 94120  
Telephone: (415) 973-2095

Attorneys for Plaintiff  
PACIFIC GAS AND ELECTRIC COMPANY

**SUPERIOR COURT OF THE STATE OF CALIFORNIA**

**IN AND FOR THE CITY AND COUNTY OF SAN FRANCISCO**

**PACIFIC GAS AND ELECTRIC COMPANY,**

**Plaintiff,**

**v.**

**LAGUNA IRRIGATION DISTRICT, PROVOST &  
PRITCHARD ENGINEERING GROUP, INC., and  
DOES 1-100, inclusive,**

**Defendants.**

**Case No. CGC-02-406259**

**JUDGMENT PURSUANT TO  
STIPULATION**

**EXHIBIT "C"**

Judgment is hereby rendered pursuant to the terms of the Settlement Agreement attached hereto and incorporated herein by reference.

Dated: \_\_\_\_\_, 2003

\_\_\_\_\_  
HONORABLE JUDGE OF THE SUPERIOR COURT

Judgment entered on \_\_\_\_\_, in Book No. \_\_\_\_\_ of Judgments, page \_\_\_\_\_.

Dated: \_\_\_\_\_, 2003

\_\_\_\_\_  
SUPERIOR COURT CLERK

EXHIBIT "C"