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PACIFIC GAS AND ELECTRIC COMPANY

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

12 In re

Case No. 01-30923 DM

13 PACIFIC GAS AND ELECTRIC  
14 COMPANY, a California corporation,

Chapter 11

15 Debtor.

Date: February 26, 2004  
Time: 1:30 p.m.  
Place: 235 Pine Street, 22nd Floor  
San Francisco, California

16 Federal I.D. No. 94-0742640  
17

18  
19 DECLARATION OF KENT M. HARVEY IN SUPPORT OF DEBTOR'S  
MOTION FOR ORDER MODIFYING STIPULATION: (I) AUTHORIZING  
20 USE OF CASH COLLATERAL PURSUANT TO 11 U.S.C. § 363 AND  
BANKRUPTCY RULE 4001 AND (II) GRANTING ADEQUATE  
21 PROTECTION PURSUANT TO 11 U.S.C. §§ 361 AND 363, TO ENABLE  
MARCH 2004 PRINCIPAL PAYMENT ON CERTAIN MORTGAGE  
22 BONDS

BKRPD

1 I, Kent M. Harvey, declare as follows:

2 1. I am the chief financial officer of Pacific Gas and Electric Company ("PG&E" or  
3 the "Debtor"), the debtor and debtor-in-possession in this Chapter 11 Case. This Declaration  
4 is based on my personal knowledge of PG&E's operations and financial position (except as  
5 to any matters stated on information on belief, and as to such matters, I am informed and  
6 believe they are true). If called as a witness, I could and would testify competently to the  
7 facts stated herein.

8 2. I make this Declaration in support of the Debtor's Motion for Order Modifying  
9 Stipulation: (I) Authorizing Use Of Cash Collateral Pursuant To 11 U.S.C. §363 And  
10 Bankruptcy Rule 4001 And (II) Granting Adequate Protection Pursuant To 11 U.S.C. §§361  
11 and 363, To Enable March 2004 Principal Payment On Certain Mortgage Bonds (the  
12 "Motion"). The Motion seeks approval of a certain proposed modification to the  
13 Stipulation: (I) Authorizing Use Of Cash Collateral Pursuant To 11 U.S.C. §363 And  
14 Bankruptcy Rule 4001 And (II) Granting Adequate Protection Pursuant To 11 U.S.C. §§361  
15 and 363, as modified to date (the "Stipulation"), between PG&E and BNY Western Trust  
16 Company, as successor trustee (the "Indenture Trustee") pursuant to that certain indenture  
17 dated December 1, 1920 with respect to mortgage bonds issued by PG&E, which indenture  
18 has been supplemented by 14 supplemental indentures (collectively, the "Indenture"). In  
19 particular, the proposed modification would provide for the timely payment by PG&E of the  
20 principal amount of the 1993 Series G Bonds scheduled to mature on March 1, 2004 (the  
21 "Bonds"), in the approximate amount of \$310 million. Attached hereto as Exhibit 1 is a true  
22 and correct blacklined copy of the revised Stipulation, reflecting the proposed revisions  
23 thereto (in paragraph 21).<sup>1</sup>

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25 <sup>1</sup> Exhibit 1 is not attached to the service copies of this Declaration. You may obtain  
26 copies of such documents through the "Pacific Gas & Electric Company Chapter 11 Case"  
27 link accessible through the Bankruptcy Court's website ([www.canb.uscourts.gov](http://www.canb.uscourts.gov)), or by  
28 written request by mail to Howard, Rice, Nemerovski, Canady, Falk & Rabkin, Attn:  
Jerome Ferrer, Three Embarcadero Center, 7th Floor, San Francisco, California 94111-4065,  
or by e-mail request to [jferrer@hrice.com](mailto:jferrer@hrice.com).

1           3.    On or about May 9, 2001, this Court issued its Order on Debtor's Motion For  
2 Order Approving Stipulation: (I) Authorizing and Restricting Use of Cash Collateral  
3 Pursuant to 11 U.S.C. § 363 and Bankruptcy Rule 4001 and (II) Granting Adequate  
4 Protection Pursuant to 11 U.S.C. §§ 361 and 363, approving PG&E's entry into and  
5 performance under the Stipulation. The Stipulation provides for PG&E's continued use of  
6 cash collateral in which the Indenture Trustee has an interest (on behalf of the holders of the  
7 Bonds) pursuant to certain conditions and restrictions. Among other things, the Stipulation  
8 provides for the timely payment of interest and sinking fund payments as provided under the  
9 Indenture. The annual amount of interest and sinking fund payments currently accruing on  
10 the Bonds is approximately \$230 million.

11           4.    On February 1, 2002, the Debtor filed a motion for an order modifying the  
12 Stipulation to permit the Debtor's timely payment of \$333 million in principal amount of  
13 mortgage bonds that matured on March 1, 2002. On February 26, 2002, the Court issued  
14 its order so modifying the Original Stipulation by adding the following language to  
15 paragraph 21 of the Stipulation: "In addition the principal amount of the Bonds scheduled to  
16 mature on March 1, 2002 in the approximate amount of \$333 million shall be payable on the  
17 terms set forth in the Indenture."

18           5.    On June 20, 2003, the Debtor filed a motion for an order further modifying the  
19 Stipulation to permit the Debtor's timely payment of \$281 million in principal amount of  
20 mortgage bonds that matured on August 1, 2003. On July 21, 2003, the Court issued its  
21 order so further modifying the Stipulation by adding the following language to paragraph 21  
22 of the Stipulation: "In addition the principal amount of the Bonds scheduled to mature on  
23 August 1, 2003 in the approximate amount of \$281 million shall be payable on the terms set  
24 forth in the Indenture."

25           6.    To the best of my knowledge, PG&E and the Indenture Trustee have continued to  
26 perform their respective obligations under the Stipulation.


27           7.    I am informed and believe that PG&E's obligations under the Indenture are  
28 substantially oversecured. The total unpaid indebtedness under the Bonds is approximately

1 \$3.0 billion. Such indebtedness is secured by a first-priority lien on substantially all of  
2 PG&E's assets. PG&E reported total assets of approximately \$27.8 billion as of November  
3 30, 2003 on its most recently filed Operating Report.

4 8. The 1993 Series G Bonds, which are scheduled to mature on March 1, 2004,  
5 accrue interest at 6 1/4 percent (6.25%) per annum. If PG&E is authorized to make the  
6 March 2004 principal payment on the Bonds, it expects to do so using cash currently held by  
7 the estate. As reported on PG&E's most recent Operating Report, PG&E had a cash balance  
8 of approximately \$4.1 billion as of November 30, 2003. PG&E submits that such payment  
9 will benefit the estate financially because the Bonds accrue interest at a rate significantly in  
10 excess of the rates currently being earned by PG&E on its cash balances. By contrast, if  
11 PG&E fails to timely make the March 2004 principal payment, it risks being in default under  
12 the Indenture, and the negative consequences that may flow from such a default (e.g., the  
13 potential acceleration of all series of the Bonds).

14 I declare under penalty of perjury under the laws of the United States of America and  
15 the State of California that the foregoing is true and correct. Executed this 26<sup>th</sup> day of  
16 January, 2004 at San Francisco, California.

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18 DATED: January 26, 2004

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22 KENT M. HARVEY

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