

50-295/323

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8 PACIFIC GAS AND ELECTRIC COMPANY

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

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

Case No. 01-30923 DM
Chapter 11 Case
Date: October 22, 2001
Time: 10:00 a.m.
Place: 235 Pine Street, 22nd Floor
San Francisco, CA

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

18
19 FIRST INTERIM APPLICATION FOR COMPENSATION AND
20 REIMBURSEMENT OF EXPENSES BY COUNSEL FOR
DEBTOR-IN-POSSESSION
21 (HOWARD, RICE, NEMEROVSKI, CANADY, FALK & RABKIN)
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1 TO THE HONORABLE DENNIS MONTALI, UNITED STATES BANKRUPTCY
2 JUDGE:

3 Applicant is the law firm of Howard, Rice, Nemerovski, Canady, Falk & Rabkin,
4 A Professional Corporation ("Applicant" or "Howard, Rice"). Pursuant to an order of this
5 Court entered on May 26, 2001, this Court approved Applicant's employment as counsel for
6 Pacific Gas And Electric Company, the debtor and debtor-in-possession herein (the "Debtor"
7 or "PG&E"). Attached hereto as Exhibit "A" is a true and correct copy of the Order
8 Authorizing Employment of Counsel for Debtor.

9 This is Howard, Rice's first interim application for compensation and
10 reimbursement of expenses. Applicant seeks an order pursuant to Section 331 of the
11 Bankruptcy Code (11 U.S.C. §331)¹ approving and allowing total compensation of
12 \$4,688,468.39 for services rendered and reimbursement of expenses, for the period from
13 April 6, 2001 through July 31, 2001 (comprised of \$4,402,119.72 in fees and \$286,348.67 in
14 costs advanced on the Debtor's behalf).²

15 Prior to the commencement of this Chapter 11 case, Howard, Rice received
16 \$1,000,000 from PG&E for services rendered and to be rendered, and costs advanced and to
17 be advanced in contemplation of or in connection with PG&E's Chapter 11 case. This
18 amount included sums advanced to Applicant on account of services rendered and costs
19 advanced and to be advanced to the Debtor during the immediate pre-Chapter 11 filing
20 period.

21 Pursuant to the Order Establishing Interim Fee Application and Expense
22 Reimbursement Procedure entered herein on July 26, 2001 (the "Interim Compensation
23 Order"), the Court authorized procedures for the interim award of compensation and
24 reimbursement of expenses to professionals, including Howard, Rice. In accordance with

25 _____
26 ¹Unless otherwise specified, all section references herein are to the United States
Bankruptcy Code (title 11 of the United States Code).

27 ²As set forth in greater detail below, and for the reasons stated in the Summary of Fees
28 and Expenses at pp. 52-57, Applicant has written off approximately \$9,000 in fees and
\$140,000 in expenses, which have been deducted in calculating these total amounts.

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1 the Interim Compensation Order, Applicant filed Interim Applications seeking payment of
 2 fees and reimbursement of expenses, in the following amounts, which have been paid as of
 3 the date hereof (with the exception of amounts due for July):

<u>Month</u>	<u>Fees</u>	<u>Expenses³</u>	<u>Total</u>
4 April	\$ 836,763.75	\$ 96,720.04	\$ 933,483.79
5 May	1,320,030.50	107,103.45	1,427,133.95
6 June	923,171.74	55,018.11	978,189.85
7 July	890,250.11	73,117.96	963,368.07

9 Pursuant to the Interim Compensation Order, these amounts reflect a ten percent (10%)
 10 holdback from the monthly payments. By this Application, Howard, Rice hereby seeks
 11 approval of 100% of the fees and expenses incurred for this period, in the following amounts
 12 (less the fees of approximately \$9,000 that Applicant has written off, as described further
 13 below):

<u>Month</u>	<u>Fees</u>	<u>Expenses</u>	<u>Total</u>
14 April	\$ 929,737.50	\$ 75,144.52	\$1,004,882.02
15 May	1,466,700.55	107,103.45	1,573,804.00
16 June	1,025,746.38	55,018.11	1,080,764.49
17 July	989,166.79	49,082.59	1,038,249.38

18 As required by the Interim Compensation Order, Applicant has filed its time
 19 records for this period separately from this Application.

20 During the period covered by this Application, Howard, Rice has rendered
 21 valuable services to the Debtor, as more specifically set forth herein.

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 25 ³It has recently come to Applicant's attention that certain charges that do not comply
 26 with the Guidelines, in the amounts of \$21,575.52 and \$24,035.37, respectively, were
 27 inadvertently included in Applicant's Cover Sheet Application for the months of April and
 28 July 2001. Applicant has excluded these charges from its request for reimbursement of
 expenses in this Application, and will ensure that the amount of these charges is credited to
 the Debtor's account with Applicant.

1 As the case has progressed, Howard, Rice has filed numerous other motions for
2 the purpose of ensuring continuity of the Debtor's operations and to facilitate the Debtor's
3 ability to continue its activities in the ordinary course of business, virtually all of which have
4 been granted by the Court. For example, Applicant filed motions to confirm that the Debtor
5 could continue to use funds collected for its Public Purpose Programs (including energy
6 efficiency, low income, research and development and renewable generation programs), to
7 permit assumption of its hydroelectric power purchase agreements, and to allow it, subject to
8 specified dollar limitations, to settle post-petition third party claims, to make capital
9 expenditures, and to continue its environmental programs.

10 Prior to and following the filing of this case, Howard, Rice's representation of the
11 Debtor has required extraordinary activity in connection with communications with
12 creditors, governmental entities, management personnel and the Official Committee of
13 Unsecured Creditors (the "Committee"), on virtually a daily basis.

14 Applicant filed a motion to extend the 120-day exclusivity period for filing a plan
15 of reorganization, which was granted by this Court, extending the period for filing a plan to
16 December 6, 2001 and, assuming a plan is filed by such date, extending the exclusivity
17 period pursuant to Section 1121(c)(3) until February 2, 2002. PG&E anticipates filing a plan
18 well within this period, and Applicant's current efforts are focused, along with those of the
19 Debtor and its parent company, on preparing the plan and disclosure statement.

20 21 SUMMARY OF PROFESSIONAL SERVICES

22 Howard, Rice's services during the period covered by this Application can be
23 generally broken down into 43 separate categories, which are set forth below. The following
24 narrative descriptions summarize salient aspects of Applicant's representation of the Debtor
25 in each category:
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1 1. Case Administration (.003)⁴

2 Although Howard, Rice has made every effort to record its time entries into
3 specific matters, a significant amount of time is reflected in the Case Administration
4 category. This categorization is appropriate, since the administration of this large, complex
5 case entails a significant effort. As lead bankruptcy counsel for the Debtor, Applicant's
6 coordination with the many other lawyers and law firms involved in this case is time
7 consuming, but it is essential in order to ensure that matters are handled as efficiently and
8 effectively as possible.

9 During the period covered by this Application, Applicant performed the
10 following services in this category:

11 a. Applicant attended numerous meetings and conferences with the Debtor's
12 management and in-house legal staff for purposes of communicating important aspects of
13 compliance with relevant bankruptcy law, coordination of tasks, and determination of
14 strategies. By way of example, during the period covered by this Application, Howard, Rice
15 has been involved in regular meetings with PG&E's management twice per week to review
16 upcoming matters and oversee staffing, both internal and external. In addition, Applicant
17 has attended twice-weekly meetings of a "legal integration" team which consists of various
18 corporate and outside lawyers, the purpose of which is to ensure that the Debtor's various
19 legal experts and in-house legal team are integrated and operating smoothly. Howard, Rice
20 also has attended twice-weekly meetings with the Debtor's chief counsel team to ensure that
21 matters are properly staffed and to determine priorities. Applicant's five bankruptcy
22 partners also meet regularly to communicate regarding outstanding issues, prioritize projects
23 and determine staffing. These meetings, although time consuming, are cost beneficial in this
24 case as they avoid duplication of efforts and miscommunication.

25 b. Applicant responded to inquiries from creditors and counsel for creditors.

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⁴The number in parentheses following the title of each matter is the applicable Howard,
28 Rice billing matter number that appears on each invoice.

1 Howard, Rice has fielded countless inquiries from creditors and counsel regarding the case
2 on a daily basis. In the initial stages of the case, Applicant set up both a dedicated telephone
3 mailbox and a dedicated e-mail address to route routine inquiries. Legal assistants returned
4 calls or e-mails and, when appropriate, referred them to attorneys for response.

5 c. Applicant established a dedicated telephone mailbox and e-mail address for
6 inquiries from PG&E in order to avoid inefficient "phone tag" or multiple responses to the
7 same questions. Howard, Rice set up these procedures in response to the numerous inquiries
8 received from in-house counsel and the Debtor's management representatives regarding the
9 multitude of bankruptcy issues that arose (and continue to arise) on a daily basis.

10 d. Applicant responded to significant correspondence and e-mail traffic, much
11 of which has to fall under the category of miscellaneous and ultimately appears as an entry
12 in the case administration matter. The bankruptcy partners and other lawyers working on this
13 case routinely receive, review and in many cases respond to in excess of 100 e-mails per
14 day. Although each one on average may take only a few minutes to review and respond to,
15 cumulatively the time commitment to deal with this correspondence is substantial.

16 e. Applicant has coordinated the filing and service of numerous pleadings.
17 During the period covered by this Application, the filing and service of pleadings has been a
18 significant job which is reflected in this matter. Hundreds of pleadings have been filed in
19 the case and each requires attention to ensure that citations are checked, format is
20 appropriate, declarations are signed, hearing dates are obtained and service is effected.

21 With respect to this category, the number of hours spent and the amount of
22 compensation and expenses requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>	<u>Total Expenses²</u>
3,171.79	\$661,047.94	\$286,348.67

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27 ⁵For ease of administration, all reimbursable expenses incurred by Applicant on behalf
28 of the Debtor in connection with this case have been billed to and appear in this category.
The amount stated reflects write offs of \$140,670, as described more fully below.

1 2. Professional Employment (.004).

2 As mentioned above, the administration of this large and complex case
3 necessarily has involved the work of a number of professionals. During the period covered
4 by this Application, Applicant performed the following services with respect to the
5 employment and compensation of professionals:

6 a. Prepared Howard, Rice's application for employment prior to the
7 commencement of this case. In response to an objection by the Office of the United States
8 Trustee ("UST") and comments by the Court at a status conference regarding the
9 employment of professionals conducted on May 8, 2001, Applicant significantly updated its
10 disclosure and filed supplemental declarations in support of its application for employment.

11 b. Howard, Rice has assisted virtually every professional employed in this
12 case in complying with the applicable provisions of the Bankruptcy Code, the Federal Rules
13 of Bankruptcy Procedure (the "Rules"), and the respective guidelines for employment and
14 compensation of professionals, promulgated by this Court and by the UST (collectively, the
15 "Guidelines"). Applicant materially assisted the Debtor's accountants, Ernst & Young, and
16 two of its special counsel, Keker & Van Nest and Steefel, Levitt & Weiss, in drafting their
17 respective applications for employment. In addition, Howard, Rice reviewed and, with input
18 from PG&E, supported revisions to the applications of special counsel Skadden, Arps;
19 Cooley, Godward; and Heller Ehrman, as well as that of the Debtor's auditors, Deloitte and
20 Touche. Applicant assisted these professionals in the analysis of conflicts and disclosure
21 issues, and a number of other issues regarding compliance with the Code, Rules and the
22 Guidelines.

23 c. Applicant prepared an "omnibus" application for the employment of
24 approximately 60 "non-bankruptcy" counsel. In addition to those professionals who have
25 been employed under individual applications, PG&E has employed approximately 60 law
26 firms as "special counsel" under Section 327(e), on non-bankruptcy matters, pursuant to the
27 omnibus application. As the omnibus application described in greater detail, the Debtor
28 regularly employed approximately 70 law firms prior to the commencement of this case in

1 the ordinary course of its business. These non-bankruptcy professionals perform a variety of
2 services, such as advising the Debtor with respect to a wide range of highly specialized
3 regulatory matters, defense of personal injury actions, and real estate-related matters.
4 Howard, Rice attended numerous meetings with PG&E to craft the most efficient means of
5 employing (and compensating) these professionals. Applicant also conducted several
6 meetings with representatives of the UST to ensure that the Debtor's employment and
7 compensation of these professionals would be done as expeditiously as possible, while
8 complying at all times with the Code, Rules and Guidelines. Howard, Rice prepared the
9 omnibus application and supporting declarations, including the form of declaration regarding
10 "disinterestedness" and other matters, which was utilized by each of the non-bankruptcy
11 professionals. Applicant consulted further with the Debtor regarding the retention of
12 specific non-bankruptcy professionals related to issues pertinent to their employment.

13 The UST objected to the portion of the omnibus application requesting leave to
14 file hourly rates information under seal pursuant to Section 107 and Rule 9018.
15 Accordingly, Howard, Rice drafted an Amended Application for Authority to Employ
16 Special Counsel for Non-Bankruptcy Matters, a Motion for Authority to File Information
17 Concerning Hourly Rates Under Seal, and supporting declarations. Following a hearing, the
18 Court approved the Amended Application and the Motion.

19 d. Applicant advised the Debtor regarding the retention and compensation of
20 numerous other professionals, many of whom are employed in the ordinary course of
21 PG&E's business, including auctioneers, appraisers and real estate brokers.

22 e. Applicant assisted counsel for the Committee in preparing the Joint Motion
23 for Order Establishing Procedures for Interim Compensation of Professionals (the "Motion
24 re Compensation Procedures"). Applicant conducted numerous conferences with
25 representatives of the UST in an effort to resolve their objections to the Motion re
26 Compensation Procedures, and attended the hearing on the Motion. Howard, Rice later
27 revised the Order Approving Motion for Compensation Procedures, and consulted with
28 numerous professionals concerning compliance with the provisions of the Order.

1 With respect to this category, the number of hours spent and the amount of
2 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
568	\$161,809.50

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6 3. General Operations (.005).

7 Applicant has provided advice and assistance to the Debtor on an ongoing basis
8 on a variety of matters concerning its ongoing operations as debtor in possession and has
9 counseled PG&E concerning compliance with the Bankruptcy Code and the Guidelines.

10 During the period covered by this Application, Howard, Rice performed the
11 following services in connection with the Debtor's general operations:

12 a. Applicant conducted legal research and analysis and advised PG&E
13 regarding issues concerning the Debtor's relationships with certain customers, such as
14 residential and commercial customers and holders of mainline extension deposits. This
15 included the filing of emergency motions to refund customer deposits and mainline
16 extension deposits, which motions resulted in orders of the Court authorizing the refund of
17 customer deposits and mainline extension deposits of residential customers.

18 b. Applicant advised the Debtor regarding the treatment of certain creditors,
19 including creditors involved in certain public purpose programs of the Debtor, the Debtor's
20 commercial credit card bank, and its bondholders. During this period, Applicant filed a
21 motion seeking authority for continuation of the Debtor's public purpose programs, which
22 was granted by the Court.

23 c. Applicant advised the Debtor regarding issues concerning certain of its
24 suppliers, including critical gas suppliers.

25 d. Applicant advised the Debtor regarding payment of secured real property
26 taxes, including research and analysis of penalty provisions and the filing of a motion
27 regarding authority to pay such taxes.

28 e. Applicant advised the Debtor regarding treatment of governmental permits,

1 licenses and fees.

2 f. Applicant advised the Debtor concerning its ability to conduct certain post-
3 petition transactions in the ordinary course of its business, including (i) analysis of the
4 impact of Chapter 11 on the Debtor's capital expenditures policy and the filing of a motion
5 seeking authorization to make capital expenditures within certain specified parameters;
6 (ii) analysis of the Debtor's third-party claims procedures and the filing of a motion seeking
7 authorization to settle certain post-petition third-party claims; and (iii) analysis of the impact
8 of Chapter 11 on the Debtor's ability to continue its hazardous substance cleanup programs,
9 and the filing of a motion to authorize the continuation of such programs. Each of these
10 motions was granted by the Court.

11 g. Applicant prepared motions seeking authorization to assume certain
12 executory contracts that were necessary for the operation of the Debtor's nuclear power
13 plant, including a contract for the disposal of nuclear waste and certain nuclear insurance
14 policies, each of which motions was granted.

15 h. Applicant attended regular meetings of PG&E's board of directors for
16 purposes of advising the board of directors regarding its duties on behalf of a debtor and
17 debtor in possession, reporting on progress and significant events in the Debtor's Chapter 11
18 case, answering questions posed by board members, and discussing with the board various
19 strategies for the Debtor's restructuring.

20 i. Applicant responded to numerous inquiries from creditors regarding the
21 status of the bankruptcy case and various issues regarding individual creditors' treatment in
22 the case.

23 j. Applicant consulted with the Debtor and attended conference calls with the
24 investor community on a regular basis.

25 k. Applicant consulted regularly with PG&E's in-house counsel and
26 management regarding compliance with the requirements of applicable bankruptcy law in
27 conducting its operations.
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1 With respect to this category, the number of hours spent and the amount of
2 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
583.96	\$178,699.60

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6 4. Employee Compensation (.006).

7 PG&E employs approximately 20,000 workers. Not surprisingly, numerous
8 issues concerning employee compensation and benefits arose beginning on the first day of
9 this Chapter 11 case. Howard, Rice has provided advice and assistance on a number of
10 matters regarding the Debtor's relationship with its workforce during the period covered by
11 this Application, including performance of the following services:

12 a. Concurrent with the filing of PG&E's Chapter 11 case, Applicant filed a
13 motion seeking authority to honor employee wage and benefit programs, which was heard
14 and granted on the first day of the case. Subsequent to the granting of this Motion, Howard,
15 Rice counseled the Debtor's human resources team regarding the effect of the order granting
16 the motion and its implementation.

17 b. Applicant counseled PG&E regarding the effect of the Chapter 11 filing on
18 its collective bargaining agreements. Howard, Rice prepared and filed a motion for
19 assumption of four collective bargaining agreements to which PG&E is a party with various
20 unions, which motion was granted.

21 c. Applicant reviewed the Debtor's existing management retention and
22 severance policies, and met with PG&E's management team on numerous occasions
23 regarding continuation of those policies and the implementation of new policies designed to
24 retain senior management during the Chapter 11 process. Ultimately, these discussions
25 resulted in a motion for authorization to continue severance programs and implement new
26 retention programs, which motion was initially granted in part by the Court and, following
27 the filing of supplemental declarations in support of certain factual allegations, was granted
28 in its entirety.

1 With respect to this category, the number of hours spent and the amount of
2 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
160.80	\$57,411.00

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6 5. Regulatory Matters (.007).

7 As an investor-owned utility, PG&E is subject to regulation by the Federal
8 Energy Regulatory Commission ("FERC") and the California Public Utilities Commission
9 ("CPUC"). Many proceedings involving these agencies had been commenced prior to the
10 Debtor's bankruptcy filing and were pending on the day of the filing. The hearings and
11 other proceedings of the FERC and the CPUC involving PG&E generally have continued
12 post-petition, the intervening bankruptcy case notwithstanding. These proceedings
13 potentially implicate virtually every aspect of PG&E's operations. During the period
14 covered by this Application, Howard, Rice performed the following services in connection
15 with such regulatory matters:

16 a. Applicant reviewed the status and effect of the numerous pending
17 proceedings with the Debtor. Howard, Rice performed research concerning the effect of
18 Section 108(b) of the Code on the time for the Debtor to make filings or perform other
19 activities in connection with these proceedings.

20 b. Applicant advised PG&E's management representatives regarding the
21 intersection of bankruptcy law and state and federal law regulating utilities. For example,
22 Applicant advised PG&E on the effect of the provisions of the "Wood Decision," which
23 purported to require the Debtor to pay its "Qualifying Facilities" more promptly than
24 required by the governing contracts. Howard, Rice also advised the Debtor concerning the
25 implications of the automatic stay and other provisions of the Bankruptcy Code on
26 proceedings pending before the CPUC and the FERC.

27 c. Applicant monitored, and continues to monitor, legislative activities at the
28 state and federal levels concerning the regulation of public utilities, and regularly consults

1 with PG&E's representatives regarding these matters.

2 With respect to this category, the number of hours spent and the amount of
3 compensation requested are as follows:

4 <u>Total Hours</u>	<u>Total Fees</u>
5 239.40	\$74,461.00

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7 6. Real Property Leases (.008).

8 PG&E is the lessee under more than 250 real property leases. As a party to so
9 many leases, the Debtor required extensive counseling with respect to the effect of its
10 Chapter 11 filing on these leases. During the period covered by this Application, Howard,
11 Rice performed the following services in connection with this matter:

12 a. Early in this case, it became apparent that, due to the sheer number of real
13 estate leases involved and the complexity of this case, the Debtor could not review and
14 analyze all of its real property leases and determine whether to assume or reject all or most
15 individual leases in the 60-day time frame required under Section 365(d)(4). Accordingly,
16 Applicant prepared and filed two separate motions seeking an extension of time to take
17 action to assume, assume and assign, or reject substantially all of its real property leases.
18 Preparation of the motions, which were granted by the Court, required extensive legal
19 analysis regarding various forms of agreements to which PG&E is a party, including licenses
20 and permits, to determine whether they constituted "leases" within the scope of Section 365.
21 Applicant attended numerous meetings and conference calls with the Debtor's in-house legal
22 department and management to identify the leases and discuss strategy for determining how
23 to address the issues arising therefrom. One of the motions also met with opposition from a
24 landlord, which Applicant was required to respond to and attempt to resolve.

25 b. PG&E leases substantial office space at 123 Mission Street in San
26 Francisco. At the time of the filing of this case, PG&E and the landlord were discussing a
27 proposed modification to the lease for that property involving the amount of space subject to
28 the lease. Applicant assisted PG&E with a number of issues regarding the proposed

1 modification, including reviewing the lease and the proposed modification, consulting with
2 PG&E's in-house counsel and management representatives, and negotiating with counsel for
3 the landlord regarding the terms of the modification. Applicant prepared a motion with
4 respect to this modification, which has not yet been filed, pending the Debtor's business
5 decision regarding whether to proceed with the motion.

6 With respect to this category, the number of hours spent and the amount of
7 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
184.60	\$54,360.00

11 7. Personal Property Leases And Executory Contracts (.009).

12 The Debtor is a party to tens of thousands of personal property leases and
13 executory contracts. Howard, Rice has consulted with PG&E on numerous occasions with
14 respect to the treatment of individual contracts, and, in some cases, the treatment of certain
15 types of contracts. During the period covered by this Application, Applicant performed the
16 following services with respect to personal property leases and executory contracts:

17 a. Howard, Rice conducted extensive research and analysis of numerous legal
18 issues with respect to various types of contracts related to the supply of gas and electricity,
19 including forward contracts, bilateral contracts and swap agreements, and advised the Debtor
20 regarding positions that were taken by certain counter-parties to those agreements. This
21 activity included disputes with Sempra, which are discussed in detail in Paragraph 34 below.

22 b. Applicant consulted with the Debtor regarding its hydroelectric power
23 purchase agreements, and reviewed each of the agreements to which it is a party with
24 various irrigation districts. Applicant attended several meetings with representatives of the
25 irrigation districts and the Debtor's management regarding the treatment of these
26 agreements. Howard, Rice filed a motion to assume all but one of these contracts, following
27 which it conducted extensive negotiations with the irrigation districts' counsel regarding the
28 arrearages on each of the contracts and other issues related to the assumption of these

1 agreements. The motion was granted by the Court. Applicant negotiated a stipulation with
2 the remaining irrigation district, which was approved by the Court.

3 c. Howard, Rice prepared numerous motions to assume contracts which were
4 necessary for PG&E's ongoing conduct of its business, including a motion to assume a
5 contract for the purchase of transformers needed for the anticipated increased summer
6 demands for power, which was granted, and motions to assume other operating agreements,
7 which have not yet been filed. Also billed to this matter was time spent in connection with
8 the assumption of nuclear insurance policies and assumption of the Debtor's collective
9 bargaining agreements, discussed above in Paragraphs 3 and 4, respectively.

10 d. Applicant prepared and filed a motion to assume 510 franchise agreements
11 between PG&E and various California municipalities; however, after discussions with the
12 Committee and numerous municipalities, the Debtor withdrew the motion, without prejudice
13 to its rights to refile the motion if necessary in the future.

14 e. Howard, Rice advised the Debtor's management with respect to a number
15 of executory contracts and handled numerous inquiries and demands from creditors who
16 were parties to contracts with PG&E. In addition, Applicant discussed a variety of issues
17 related to executory contracts with Committee counsel on numerous occasions.

18 With respect to this category, the number of hours spent and the amount of
19 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
641.00	\$167,816.50

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23 8. Cash Collateral (.010).

24 Substantially all of PG&E's assets have been pledged as collateral to secure its
25 obligations of approximately \$3.5 billion under certain mortgage bonds. PG&E has also
26 pledged gas-related receivables and inventory to secure its obligations under agreements
27 with gas suppliers, to ensure an adequate supply of gas for PG&E's customers. The use of
28 such secured creditors' cash collateral during PG&E's bankruptcy case is necessary to

1 enable PG&E's continued operations. During the period covered by this Application,
2 Howard, Rice performed the following services with respect to cash collateral issues:

3 a. Applicant prepared and obtained orders granting motions for interim and
4 final use of the cash collateral of PG&E's mortgage bondholders (and a related motion to
5 shorten time).

6 b. Howard, Rice extensively negotiated and documented a stipulation with
7 the indenture trustee for use of the mortgage bondholders' cash collateral.

8 c. Applicant prepared and obtained an order granting the motion for
9 approval of the cash collateral stipulation with such indenture trustee. Applicant also
10 negotiated the form of order with such indenture trustee.

11 d. Applicant assisted in preparing a framework for verifying PG&E's
12 compliance with its ongoing obligations under the cash collateral stipulation, including
13 review and payment of such indenture trustee's fees and expenses.

14 e. Howard, Rice prepared and successfully argued motions for interim and
15 final use of cash collateral of gas suppliers and to incur post-petition secured debt to gas
16 suppliers pursuant to security agreements with such suppliers (and a related motion to
17 shorten time). Applicant also negotiated the form of order with the gas suppliers. In
18 addition, Howard, Rice drafted a form of extension agreement to extend the term of the gas
19 supplier security agreements based on CPUC authorization with respect thereto.

20 f. Applicant prepared and obtained an order granting the motion to extend
21 the gas supplier security agreement to additional suppliers.

22 g. Howard, Rice regularly consulted with and advised PG&E regarding the
23 foregoing.

24 With respect to this category, the number of hours spent and the amount of
25 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
139.90	\$47,940.50

1 9. Post-Petition Financing (.011).

2 This category encompasses a number of financing-related matters, ranging from
3 the negotiation and documentation of a debtor-in-possession revolving credit facility to a
4 variety of post-petition issues respecting certain of the many different types of debt
5 issuances of the Debtor outstanding as of and after the Debtor's Chapter 11 filing. More
6 specifically, during the period covered by this Application, Applicant performed the
7 following services in this category:

8 a. Applicant assisted the Debtor in completing negotiations with a major
9 institutional debtor-in-possession ("DIP") financing lender for a substantial DIP revolving
10 credit facility and the documentation therefor, which negotiations and documentation had
11 commenced prior to the Debtor's Chapter 11 filing in anticipation of a possible Chapter 11
12 filing. In addition, Application prepared a motion for approval of such DIP credit facility
13 under Section 364 and an accompanying memorandum of points and authorities and
14 declaration. Although the Debtor ultimately determined that it had sufficient short-term
15 liquidity in the wake of the Chapter 11 filing and that it therefore did not need to go forward
16 with the DIP credit facility, the Debtor had decided that it was an important strategic
17 objective to have a fully negotiated DIP credit facility ready to go and to be prepared to file a
18 motion approving such facility in the first phase of this Chapter 11 case in the event such a
19 facility was needed.

20 b. Among the Debtor's different types of outstanding indebtedness, extant
21 both before and after the Debtor's Chapter 11 filing, is over \$1 billion of bonds commonly
22 known as the "Pollution Control Bonds." Although technically issued by a public
23 instrumentality and political subdivision of the State of California known as the California
24 Pollution Control Financing Authority (the "Authority"), this \$1 billion-plus of Pollution
25 Control Bonds is effectively indebtedness of the Debtor pursuant to a series of inter-related
26 documents entered into between or among various parties, including the Authority, the
27 Debtor and a Trustee under various separate trust indentures pertaining to the Pollution
28 Control Bonds. A substantial portion of the Pollution Control Bonds are credit enhanced by

1 outstanding letters of credit ("LCs") issued by various banks or by a financial guaranty
2 insurance policy issued by a large insurer, in each case for the account of the Debtor and for
3 the benefit of the Trustee (the "Credit Enhanced PC Bonds"). The Credit Enhanced PC
4 Bonds provide financing at interest rates favorable to the Debtor because of their tax-exempt
5 status. After taking into account somewhat technical and arcane tax doctrines, the Debtor
6 concluded that it was a desirable financing objective to try to maintain as much of the Credit
7 Enhanced PC Bonds outstanding as possible, and to encourage the LC-issuing banks and the
8 insurer to refrain from triggering events that might cause the redemption of the Credit
9 Enhanced PC Bonds. Over a period of many weeks, Howard, Rice assisted the Debtor in
10 negotiating a Stipulation with various of the LC-issuing and participating banks and the
11 insurer, aimed at preserving the prospect of keeping as much of the Credit Enhanced PC
12 Bonds outstanding as possible so that they might be carried forward through a plan of
13 reorganization. Howard, Rice also drafted the necessary motion and supporting papers for
14 approval of such Stipulation by the Bankruptcy Court. (Such Stipulation ultimately was
15 successfully concluded and approved pursuant to a noticed motion procedure after the period
16 covered by this Application.) In addition, Applicant assisted the Debtor in connection with
17 negotiating and documenting certain related technical amendments to the Debtor's
18 reimbursement agreement with the lead LC-issuing bank.

19 c. Applicant also fielded a range of questions regarding various other debt
20 issuances or institutional indebtedness of the Debtor outstanding as of the Chapter 11 filing,
21 including, without limitation, questions pertaining to (i) the Debtor's so-called "Mortgage
22 Bonds" aggregating over \$3 billion under that certain Indenture dated as of December 1,
23 1920, and (ii) the Debtor's so-called "QUIPS/QUIDS" financing in the amount of
24 approximately \$300 million.

25 With respect to this category, the number of hours spent and the amount of
26 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
71.20	\$29,109

1 10. Relief From Stay (.012).

2 As anticipated in a case of this magnitude, the Debtor has encountered a plethora
3 of issues related to the automatic stay imposed by Section 362. During the period covered
4 by this Application, Applicant performed the following services in this category:

5 a. Howard, Rice conducted research and analysis of the applicability of the
6 automatic stay to various contracts and to certain actions taken or threatened to be taken by
7 regulators, creditors and other parties.

8 b. Applicant advised the Debtor with respect to a number of motions for relief
9 from stay that were filed in this case by litigants seeking to continue certain state and federal
10 court litigation that was commenced prior to the filing of the petition. Howard, Rice
11 negotiated with moving parties, consulted with the Debtor regarding such negotiations and
12 prepared numerous stipulations for relief from stay. Applicant also defended a number of
13 actions for relief from stay where no negotiated resolution was possible. Also billed to this
14 category is some of the time expended in connection with a number of motions filed by
15 Qualifying Facilities seeking relief from stay, which are described more fully in
16 Paragraph 18 below.

17 With respect to this category, the number of hours spent and the amount of
18 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
566.50	\$164,724.50

22 11. Claims And Objections to Claim (.013).

23 The Debtor has tens of thousands of creditors with myriad types of claims, many
24 of which raise complex issues. During the period covered by this Application, Howard, Rice
25 performed the following services with respect to creditor claims and objections to claims:

26 a. Applicant analyzed and responded to various creditors' apparent
27 violations of the automatic stay, including improper efforts to collect pre-petition claims
28 against the Debtor or its property.

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1 b. Applicant prepared a form of proof of claim and notice to creditors
2 regarding deadlines and procedures for filing proofs of claim against the Debtor, and
3 conducted legal research and factual investigation regarding procedures with respect to the
4 claims of certain creditors, including debt and equity security holders. Howard, Rice also
5 helped establish procedures for responding to creditor inquiries regarding proofs of claim
6 and treatment of creditor claims, including detailed "Q&A"s, and responded to numerous
7 inquiries regarding creditors' claims and the potential treatment of their claims.

8 c. Applicant prepared and obtained an order granting a motion to establish
9 deadlines and procedures for the filing of administrative claims. Applicant also prepared a
10 form of administrative claim and a form of notice regarding such deadlines, procedures and
11 form. In addition, Howard, Rice negotiated the form of these documents with certain
12 interested parties.

13 d. Applicant extensively advised and assisted the Debtor in categorizing
14 and analyzing claims of creditors and implementing procedures for reconciling claims,
15 negotiating discrepancies and formulating objections to allowance, where appropriate.

16 e. Howard, Rice prepared motions to compromise creditor claims,
17 including related legal research and factual investigation.

18 f. Applicant conducted extensive legal research and analysis regarding
19 various issues with respect to setoffs asserted by creditors, including mutuality issues (such
20 as triangular setoff and agency issues), determining the pre- or post-petition nature of
21 obligations for setoff purposes, determining whether setoff has been legally effectuated,
22 potential avoidance of improper setoffs, and unique setoff issues with respect to forward
23 contracts, swaps and similar agreements.

24 g. Howard, Rice helped established procedures for resolving such asserted
25 setoff claims, and prepared "generic" form letters and proposed stipulations with respect
26 thereto.

27 h. Applicant negotiated and documented stipulations with various creditors
28 asserting setoff rights, providing for prompt payment of the creditor's debt to the Debtor,

1 and an administrative claim to the extent such setoff rights are later established by the
2 creditor, and obtained the Court's approval thereof.

3 i. After conducting appropriate factual investigation, Applicant negotiated
4 and documented stipulations with various creditors asserting setoff rights, providing for
5 limited relief from stay to effectuate certain setoffs, and obtained the Court's approval
6 thereof.

7 j. Howard, Rice regularly advised and assisted the Debtor with respect to
8 the foregoing and related matters.

9 With respect to this category, the number of hours spent and the amount of
10 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
303.65	\$83,691.50

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12
13
14 12. Asset Sales (.014).

15 Applicant billed time to this category in connection with a number of issues that
16 arose with respect to the Debtor's ability to sell assets during the pendency of this Chapter
17 11 case, including the effect of the Chapter 11 filing on the Debtor's obligations with respect
18 to certain CPUC regulations relating to asset transfers.

19 With respect to this category, the number of hours spent and the amount of
20 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
10.80	\$4,788.50

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22
23
24 13. Plan And Disclosure Statement (.015).

25 Since the earliest days of this Chapter 11 case, senior management of the Debtor
26 and of its parent company, PG&E Corporation, which will be a co-proponent of the plan of
27 reorganization in this case, have been focused on efforts to formulate a plan, confirm a plan
28 and emerge from Chapter 11. Applicant has participated in those efforts in a significant

1 fashion. During the period covered by this Application, Howard, Rice performed the
2 following services with respect to the plan and disclosure statement:

3 a. Applicant attended meetings, on virtually a daily basis, with a senior
4 management group (the "plan team") to discuss alternatives, tactics and strategy and to
5 formulate the outlines of a restructuring plan. The work of the plan team has been supported
6 by hundreds of employees, consultants and attorneys working on specific aspects of the plan
7 and potential alternatives. The almost-daily meetings have been supplemented by periodic
8 longer meetings, including off-site meetings, where strategic and substantive decisions are
9 reached regarding the plan.

10 b. Howard, Rice devoted time and effort during this period in preparing, filing
11 and obtaining approval of the Debtor's motion to extend the exclusivity period under Section
12 1121 of the Bankruptcy Code.

13 With respect to this category, the number of hours spent and the amount of
14 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
362.90	\$150,958

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16
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18 14. Adversary Proceedings (.016).

19 Applicant has billed to this matter issues arising in connection with actual and
20 contemplated adversary proceedings and contested matters that were not billed to more
21 specific matters. During the period covered by this Application, Applicant performed the
22 following services with respect to adversary proceedings and contested matters which are
23 not included in other matters discussed in this Application:

24 a. Howard, Rice advised and assisted PG&E regarding various removal,
25 remand and abstention issues.

26 b. Applicant assisted and advised PG&E in responding to mechanics lien
27 claims.

28 c. Howard, Rice advised and assisted PG&E in negotiating and documenting

1 settlements with various litigants. Applicant also prepared motions for approval of such
2 settlements.

3 d. Howard, Rice regularly assisted and advised PG&E regarding a variety of
4 existing and contemplated adversary proceedings, contested matters and non-Bankruptcy
5 Court proceedings, including with respect to litigation strategy and tactics.

6 In addition to the matters referenced above, time was billed to this matter which
7 is more particularly described in connection with the Turn Accounting matter (Paragraph 21
8 below), the ISO Litigation matter (Paragraph 17 below), the DWR Payment Action matter
9 (Paragraph 27 below), and the Employee Co-Defendants matter (Paragraph 35 below).
10 Please refer to those descriptions for these time entries.⁶

11 With respect to this category, the number of hours spent and the amount of
12 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
360.70	\$106,786.50

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14
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16 15. CPUC & FERC (.017)

17 As noted above, the regulatory overlay in this Chapter 11 case is pervasive. This
18 matter seeks to capture services related to CPUC and FERC issues that might give rise to
19 litigation or advising the Debtor with respect to pending regulatory proceedings and the
20 bankruptcy implications thereof. During the period covered by this Application, Applicant
21 performed the following services with respect to CPUC and FERC issues:

22 a. Howard, Rice advised PG&E with regard to the efficacy of various
23 litigation alternatives in the bankruptcy case and the effect of bankruptcy on pending
24 regulatory actions and proceedings. Such consultation has led to the TURN accounting
25

26 ⁶ Approximately three-quarters of the fees billed in this matter are more properly
27 attributable to those other matters. Based on the structure of Applicant's accounting and
28 billing systems, it is extremely difficult at this time to transfer such fees to those other
matters.

1 litigation and the ISO litigation which are captured in the matters discussed in Paragraphs
2 17 and 21 below. Applicant also advised the Debtor in the early stages of the case regarding
3 the impact of Section 108(b), as well as the automatic stay, on pending regulatory matters.
4 In addition, Howard, Rice has monitored the so-called "Filed Rate Case" and advised the
5 Debtor regarding bankruptcy issues with respect to that litigation.

6 b. Applicant has conducted extensive research and analysis and advised the
7 Debtor with respect to the significant extra-bankruptcy regulatory overlay in this bankruptcy
8 case, which encompass complex issues that, in some instances, have virtually no precedent.
9 Howard, Rice has assisted the Debtor in navigating these mostly uncharted waters, which the
10 Debtor has succeeded in doing with a minimum of confrontation and generally with a
11 business-like and pragmatic approach.

12 With respect to this category, the number of hours spent and the amount of
13 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
97.70	\$37,474.50

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15
16
17 16. Litigation-California PX (.018).

18 During the period covered by this Application, Applicant performed the
19 following services with respect to litigation matters involving the California Power
20 Exchange (the "PX"), including matters in the PX's pending bankruptcy case in the U.S.
21 Bankruptcy Court for the Central District of California:

22 a. Applicant prepared papers (including related legal research and factual
23 investigation) and argued in support of the Debtor's intervention and opposition to injunctive
24 relief in an action in the U.S. District Court for the Central District of California brought by
25 the PX against the California Independent System Operator (the "ISO"), with respect to the
26 Debtor's payment obligations of hundreds of millions of dollars for the purchase of
27 electricity in markets maintained by the PX and the ISO.

28 b. Howard, Rice advised and assisted the Debtor in pursuing claims before the

1 California Victim Compensation Board based on the Governor's commandeering of PG&E's
2 block forward contracts (which the PX had threatened to liquidate) valued at hundreds of
3 millions of dollars, including issues involving the automatic stay in PG&E's and the PX's
4 respective bankruptcy cases. Applicant also advised and assisted the Debtor in preparing an
5 inverse condemnation action against the State of California with respect to such contracts.

6 c. Howard, Rice advised and assisted the Debtor in negotiating a stipulation
7 with the PX's Committee of Participants, acting on behalf of PX (the "PX Committee"),
8 with respect to stay issues in PG&E's and the PX's bankruptcy cases. Applicant also
9 analyzed removal, remand and abstention issues with respect to such claims, including
10 related legal research and factual investigation.

11 d. Applicant advised and assisted the Debtor in analyzing its claims in the
12 PX's bankruptcy case, and monitoring developments in the PX's bankruptcy case which
13 could implicate the Debtor or its bankruptcy estate.

14 With respect to this category, the number of hours spent and the amount of
15 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
80.20	\$22,595.00

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17
18
19 17. California ISO (.019).

20 On May 2, 2001, Howard, Rice initiated an adversary proceeding on behalf of
21 PG&E seeking declaratory and injunctive relief against the ISO. During the period covered
22 by this Application, Applicant performed the following services with respect to this matter:

23 a. Applicant prepared and filed the adversary proceeding which seeks an order
24 restraining the ISO from purchasing wholesale power on the Debtor's behalf from third
25 parties in violation of the ISO's Tariff and certain orders of the FERC, and at costs that
26 PG&E cannot fully recover through the generation-cost component of its rates. The
27 Committee and Reliant Energy, Inc. (and an affiliate) also intervened in this action. In
28 connection with this action, Applicant sought on the Debtor's behalf, and obtained, a

1 preliminary injunction prohibiting the ISO from engaging in certain third-party power
2 transactions. Thereafter, the parties commenced extensive discovery. Applicant's services
3 for the period in question were principally devoted to factual investigation and assessment,
4 legal research and analysis, preparation of pleadings and briefs, and strategic advice and
5 counsel to the Debtor with respect to the conduct of this litigation.

6 b. In addition to the foregoing litigation, Howard, Rice also has provided
7 ongoing advice and counsel to PG&E concerning the ISO, including cost and billing issues
8 arising from PG&E's ongoing dealings with the ISO and related subjects.

9 With respect to this category, the number of hours spent and the amount of
10 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
739.71	\$226,446.06

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12
13
14 18. Litigation-Generators (.020).

15 Applicant has assisted PG&E with a number of matters concerning its relations
16 with its gas suppliers, power generators and entities known as "Qualifying Facilities"
17 ("QFs"). Prior to the commencement of this case, the QFs and PG&E entered into certain
18 Power Purchase Agreements ("PPAs") which govern the delivery of energy to the Debtor
19 and the pricing of such energy. As of the date of the commencement of this case, PG&E
20 was a party to approximately 330 PPAs with various QFs, and the QFs accounted for
21 approximately 36% of PG&E's power requirements.

22 Prior to the commencement of this case, because of the financial difficulties
23 which PG&E experienced during the latter portion of 2000 and early 2001, PG&E failed to
24 pay the full amounts due the QFs after January 2001. As a result, as of the commencement
25 of this case, PG&E owed the QFs a total of approximately \$1 billion for pre-petition
26 obligations under the PPAs.

27 During the period covered by this Application, Applicant performed the
28 following services with respect to this matter:

1 a. Beginning almost immediately after the commencement of this case,
2 approximately 40 QFs filed motions requesting a variety of forms of relief, including:
3 (a) relief from stay to permit the QFs to “suspend” deliveries of energy to PG&E, and sell
4 into the open market, pending PG&E’s assumption or rejection of the PPAs, (b) an order
5 requiring PG&E immediately to decide whether to assume or to reject the PPAs, (c) an order
6 requiring PG&E to pay “market rates” for energy delivered under the PPAs (rather than the
7 contract rate), and (d) an order requiring PG&E to “pre-pay” for deliveries under the PPAs.
8 Many of these QFs styled their motions as “emergency” matters, and demanded orders
9 shortening time for the hearings on their motions. In connection with these motions,
10 Applicant consulted with the Debtor’s representatives, performed research on the
11 bankruptcy, energy and public utility law issues raised by the motions, and drafted
12 oppositions (and supporting materials). Applicant also prepared for and participated in
13 numerous hearings on the motions, including, with respect to the motion filed by the
14 “Westside Cogens,” preparing for and participating in a full evidentiary hearing.

15 b. As a result of hearings on a number of these motions, on June 1, 2001, the
16 Court issued an oral ruling which, while it denied most of the relief sought in the motions,
17 required the Debtor to file a statement on or before June 29, 2001 (the “June 29 Statement”),
18 indicating when it expected to decide whether to assume or reject the PPAs of the QFs that
19 had filed motions, and reciting what specific factors required that the decision not be made
20 until that date. Howard, Rice advised and consulted with PG&E concerning the effect of
21 assumption or rejection of the PPAs, the relationship of the assumption/rejection decision to
22 PG&E’s plan of reorganization, the general bankruptcy law requirements concerning
23 assumption and rejection of contracts, and the requirements for “prompt cure” and “adequate
24 assurance of future performance” contained in Section 365(b). Applicant prepared, filed and
25 served on interested parties the June 29 Statement and supporting materials, which argued
26 that the Debtor should not be required to assume or to reject any of the PPAs until the
27 confirmation of its plan of reorganization.

28 c. At the same time that Applicant and PG&E were responding to the motions,

1 they were also continuing to engage in settlement discussions with numerous QFs. As a
2 result of these continuing efforts, in early July 2001, PG&E and various QFs related to
3 Calpine Corporation (the "Calpine QFs") entered into a Stipulation and Agreement
4 concerning the assumption of the PPAs between PG&E and the Calpine QFs, which was
5 approved by the Court on July 12, 2001. Among other things, the Stipulation and
6 Agreement provides for the Debtor to cure arrearages under the PPAs by the Effective Date
7 of its plan of reorganization.

8 d. Following the approval of the Stipulation and Agreement, the Debtor
9 entered into agreements with over 200 of its QFs (representing over \$800 million of pre-
10 petition payables) on the same essential terms as those reached with the Calpine QFs
11 (provided that, in most instances, the Debtor agreed to commence making relatively small
12 cure payments approximately two years after assumption). Howard, Rice assisted the
13 Debtor in negotiating and documenting these agreements, and obtaining the approval of this
14 Court for such agreements (and related amendments to the PPAs). The effect of such
15 agreements is to provide certainty to PG&E (and its customers) for the delivery of energy on
16 favorable terms, as well as favorable resolution of numerous contested matters.

17 e. Applicant also assisted the Debtor in a dispute with Puget Sound Energy
18 ("PSE") concerning an "Exchange Agreement" between PSE and the Debtor. PSE
19 contended that this matter had to be heard on an emergency basis because the Exchange
20 Agreement, if not terminated, would require PSE to delivery energy to the Debtor
21 commencing June 1, 2001. PSE asked that the matter be set on shortened time, and the
22 Court set an evidentiary hearing on May 25, 2001. Howard, Rice performed extensive
23 services assisting PG&E's in-house counsel in preparing for this hearing, including
24 conducting substantial research concerning the issues raised by PSE's motion, drafting the
25 trial brief and preparing for trial. Following the May 25, 2001 trial, the Court rendered its
26 decision on June 1, 2001, affirming the position of PG&E that its non-delivery of energy in
27 January and February 2001 was excused, and that the Exchange Agreement had not been
28 terminated pre-petition. PSE appealed the Bankruptcy Court's decision. Applicant's

1 services with respect to this appeal are discussed below in Paragraph 41.

2 With respect to this category, the number of hours spent and the amount of
3 compensation requested are as follows:

4 <u>Total Hours</u>	5 <u>Total Fees</u>
6 1,631.10	7 \$408,305

8 19. Creditor And Committee Matters (.022).

9 This matter is designed to capture issues related to dealing with creditors
10 generally, and specifically, with the Committee. Time spent in connection with seeking to
11 vacate the appointment of a ratepayers' committee by the UST was also included within this
12 matter. During the period covered by this Application, Applicant performed the following
13 services with respect to this matter:

14 a. Creditors. The Debtor has tens of thousands of creditors. The bankruptcy
15 filing caught most by surprise and raised many questions and issues that required the
16 immediate attention of Howard, Rice. Applicant attempted to be responsive in the most
17 cost-effective manner. As described in Paragraph 1 above, during the initial days of the
18 case, Applicant set up a dedicated voice mailbox for creditor inquiries.⁷

19 Additionally, Howard, Rice has spent considerable time dealing with various
20 creditors and creditor constituencies. There are several ad hoc groups that Applicant
21 communicates with on a regular basis. Further, the Debtor conducts periodic conference
22 calls at which any interested creditor can participate. Howard, Rice assisted the Debtor in
23 preparing for and attending these calls on a regular basis.

24 b. Creditors' Committee. Shortly after the commencement of this case, the
25 Committee was appointed and since that time Applicant has advised the Debtor regarding its

26 ⁷Applicant recognizes that it has not been able to ensure that all time has been billed to
27 the most appropriate matter and that the general administration matter (.003), described in
28 Paragraph 1 above, contains time that more appropriately would have been listed in this
matter.

1 relationship with the Committee as well as working directly with the Committee and its
2 professionals. There have been numerous meetings and telephone calls with the Committee
3 and the necessary preparation for these meetings.

4 Applicant believes that it has been instrumental in establishing a good working
5 relationship with the Committee. Howard, Rice and PG&E have attempted to seek the input
6 of the Committee prior to taking any material actions in this case and to seek its support on
7 significant matters.

8 c. Ratepayers' Committee. Applicant had significant involvement with
9 respect to the efforts of the UST to appoint a Ratepayers' Committee in this case. Prior to
10 such appointment, the UST informed Applicant of her intentions and Howard, Rice
11 organized a meeting with the UST, Applicant and PG&E in an effort to convince her that
12 such appointment was inappropriate. After this unsuccessful effort, Applicant promptly
13 prepared and filed a motion to vacate the appointment. The Court agreed with the arguments
14 raised by Applicant, and vacated the appointment of the Ratepayers' Committee. Thereafter,
15 the UST and the putative Ratepayers' Committee filed separate motions for reconsideration
16 of the Court's order. Howard, Rice successfully resisted this effort as well, and the Court
17 denied the motions for reconsideration by order dated July 27, 2001.

18 With respect to this category, the number of hours spent and the amount of
19 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
518.56	\$193,126.64

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21
22
23 20. DWR (.023).

24 The Debtor entered into negotiations regarding a servicing agreement with the
25 State of California's Department of Water Resources (the "DWR") under which the Debtor
26 would provide, pursuant to California Assembly Bill ABIX (adopted on February 1, 2001),
27 certain billing and collection services for electric power that the DWR provides to electric
28 power customers of the Debtor. Applicant assisted PG&E in negotiating with the DWR and

1 the CPUC, and in drafting the terms of the servicing agreement with the DWR. Due to the
 2 complexity of the issues involved and the long-term impact of the proposed arrangements
 3 with the Debtor, the negotiations involved extensive discussions both in person and by
 4 telephonic conference. When the negotiations regarding the servicing agreement reached an
 5 impasse, the DWR filed an application with the CPUC, enclosing a disputed draft of the
 6 servicing agreement with the CPUC, and requesting that the CPUC order the Debtor to
 7 execute such draft. Applicant assisted the Debtor in challenging such application. Pending
 8 the final resolution of such application, Howard, Rice also assisted PG&E in negotiating and
 9 drafting interim servicing and reimbursement agreements with the DWR.

10 With respect to this category, the number of hours spent and the amount of
 11 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
546.10	\$159,503.50

12
 13
 14
 15 21. TURN Accounting Adversary Proceeding (.024).

16 Pursuant to the statutory rate cap imposed by the state legislation that deregulated
 17 California's electricity industry in 1996, PG&E has been unable to pass along the
 18 extraordinarily high costs of wholesale electricity to ratepayers, resulting in billions of
 19 dollars in accumulated under-collections by the time PG&E sought Chapter 11 protection.
 20 On April 9, 2001, one business day after commencing this Chapter 11 Case, Howard Rice
 21 initiated an adversary proceeding on behalf of PG&E against the CPUC and its individual
 22 Commissioners, challenging, on various bankruptcy grounds, the CPUC's implementation or
 23 enforcement of a pre-petition decision by the CPUC to adopt accounting changes for PG&E
 24 that would require PG&E to restate its regulatory books and accounts retroactive to
 25 January 1, 1998 in a manner that potentially would prolong the electric rate freeze (including
 26 well past the period that the rate freeze should have ended for PG&E under state law), and
 27 potentially impede PG&E's ability to recover its massive accumulated under-collected
 28

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1 wholesale power costs.⁸

2 At the same time that it initiated the adversary proceeding, Howard, Rice filed an
3 application for a temporary restraining order and a preliminary injunction seeking to restrain
4 enforcement of the CPUC order. Howard, Rice attorneys then negotiated a stipulated
5 resolution of one aspect of the action with the defendants that obviated the need for an
6 immediate temporary restraining order and set the matter over for a preliminary injunction
7 hearing. The defendants thereafter moved to dismiss the action on numerous legal grounds.
8 Also, the Committee sought to intervene in the action, and several governmental agencies
9 sought to specially appear and file amicus briefs. After full briefing on both competing
10 motions (consisting of nearly 200 hundred pages of legal briefing alone, as well as numerous
11 fact declarations and voluminous requests for judicial notice), PG&E's request for a
12 preliminary injunction was heard. The Court denied the request in a 30-page written
13 memorandum opinion, and the action was dismissed. Howard, Rice thereafter evaluated and
14 initiated an appeal on behalf of PG&E to the United States District Court, where the appeal
15 is now pending.

16 In this action, Howard, Rice sought relief principally under the automatic stay of
17 Section 362 and under Section 105. The extraordinary complexity of the legal and factual
18 issues—including many legal issues of first impression, including some arising from the fact
19 that the defendants were governmental entities—required Howard, Rice to devote significant
20 resources to the action. Its core litigation team has consisted of six Howard, Rice litigators:
21 two senior litigation partners, one senior litigation associate, and several mid-to-junior level
22 associates. Howard, Rice's services for the period in question were principally devoted to
23 factual investigation and assessment, significant legal research and analysis, preparation of
24 pleadings and two sets of briefing (including injunction papers), and strategic advice and
25 counsel to PG&E with respect to the conduct of the litigation. The magnitude and

26
27 ⁸The action has been referred to as the "TURN Accounting Proceeding" because the
28 principal proponent of the accounting change at issue was the consumer advocacy group
TURN, and hence the CPUC Order became referred to as the "TURN Accounting Order."

1 complexity of numerous filings also necessitated significant involvement by several
2 members of Howard, Rice's litigation support staff.

3 For example, significant resources were devoted to researching and analyzing a
4 broad range of legal issues, including in such principal areas as: the regulatory landscape
5 under state law (AB 1890) and, in particular, the transition cost recovery regime; numerous
6 issues concerning the automatic stay of Section 362(a); the Court's equitable powers under
7 Section 105; various aspects of the police and regulatory powers exception to the automatic
8 stay under Section 362(b)(4); and sovereign immunity jurisprudence. Significant resources
9 also were devoted to factual investigation and development, including reviewing past CPUC
10 decisions relating to a range of complex regulatory issues, assessing other pending litigation
11 between PG&E and the defendants on related subjects, investigating the basis for pleadings,
12 and working with PG&E witnesses and potential witnesses to prepare factual declarations
13 addressing topics such as the regulatory landscape, CPUC practices and procedures, and the
14 financial impact of the CPUC order on PG&E's estate.

15 With respect to this category, the number of hours spent and the amount of
16 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
1,316.46	\$368,583.29

17
18
19
20 22. Environmental Issues (.025).

21 The Debtor's past and present operations implicate the full gamut of
22 environmental issues in bankruptcy. As brief background, the Debtor's operations, past
23 and/or present, have included manufactured gas plant sites, natural gas gathering system
24 sites, natural gas compressor station sites, electric transmission and distribution facilities,
25 steam-electric power plant sites, hydroelectric power plant sites, nuclear power plant sites
26 and service centers. The Debtor owns numerous separate parcels of real property and is a
27 tenant under more than 250 leases. As a necessary part of its business, the Debtor has used
28 and continues to use a variety of different hazardous materials at a number of its sites.

1 Given the size and nature of its business operations, its long operating history, and the many
2 properties the Debtor owns and leases, the cleanup and remediation of sites containing
3 hazardous substances is an ordinary and recurring part of the Debtor's business and will be
4 for many years to come. In addition, the Debtor, by virtue of its business and activities, is
5 subject to numerous non-bankruptcy Federal and state laws governing the management and
6 cleanup of hazardous wastes and substances. Against this backdrop, Applicant rendered the
7 following services in this category during the period covered by this Application:

8 a. Applicant has assisted the Debtor in analyzing, and advised the Debtor
9 respecting, a wide range of bankruptcy-related issues pertaining to environmental matters.
10 These issues have ranged from determining the applicability of the exception to the
11 automatic stay for a government's exercise of police and regulatory power as it pertains to
12 environmental matters generally, to considering specific and different factual situations
13 respecting environmental issues that have arisen with some frequency during the first phase
14 of this Chapter 11 case. This has often been a challenging task, inasmuch as the caselaw
15 applicable to various matters specific to environmental claims and enforcement mechanisms
16 against a debtor in bankruptcy is less than consistent or clear. This is perhaps
17 understandable in light of the fact that such claims and mechanisms range from clean-up
18 orders, to consent decrees, to monetary fines and penalties, to compensatory fines and
19 penalties, to contractual agreements entered into against the backdrop of threatened action.
20 What is clear, however, is that dealing with a wide range of fact-specific environmental
21 issues in this bankruptcy case has involved considerable time and resources. Assisting the
22 Debtor in dealing with environmental issues in the bankruptcy context has frequently
23 involved studying specific laws, regulations and documents and conferring with a range of
24 employees familiar with various aspects of the issues presented, as well as communicating
25 with governmental agencies and regulators and, on occasion, private parties with whom the
26 Debtor has entered into "Principal Responsible Party" agreements for monitoring and/or
27 remediation of contaminated or potentially contaminated property.

28 b. In light of the many specific case-by-case advice requirements of the Debtor

1 pertaining to environmental issues, coupled with the knowledge of the environmental aspects
 2 of the Debtor's business acquired by Applicant in the early phases of this Chapter 11 case,
 3 Applicant advised and assisted the Debtor in putting together an "omnibus" motion and
 4 supporting papers for authority for the Debtor to continue its hazardous substances cleanup
 5 programs, including both pre- and post-petition obligations under such programs, up to a
 6 certain dollar limit based on the Debtor's recent historical experience. The Debtor
 7 determined to prepare and file such a motion because of the number of environmental issues
 8 that had been surfacing in the Chapter 11 case and because of both the efficiencies and social
 9 benefits to be realized by obtaining authority for the Debtor to proceed, under the umbrella
 10 of one motion, with its environmental monitoring and remediation programs at least up to
 11 certain relatively modest and reasonable dollar limits. Applicant assisted the Debtor in
 12 obtaining the support of the Committee for this motion, and successfully obtained an order
 13 approving the motion.

14 With respect to this category, the number of hours spent and the amount of
 15 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
280.60	\$92,039.00

19 23. Real Property Sales (.026).

20 In connection with its operations, the Debtor owns many pieces of property, both
 21 improved and unimproved, and the Debtor each year routinely sells various properties that
 22 have been identified as "surplus" property that it no longer needs to use for utility purposes.
 23 The sale of surplus property allows PG&E to avoid carrying costs associated with land and
 24 buildings that it no longer needs to own. In light of the Debtor's substantial land holdings,
 25 certain of the Debtor's sales are the direct or indirect result of actual or threatened eminent
 26 domain proceedings. PG&E also from time to time engages in sales of operating property
 27 for specific purposes that are consonant with PG&E's business needs. In addition, each year
 28 PG&E engages in a variety of sales or transfers involving real estate-related rights but

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1 something less than the fee ownership of property, such as easements, rights of way and the
2 like. Howard, Rice has provided advice and assistance to the Debtor on an ongoing basis in
3 connection with the Bankruptcy Code overlay on many real estate transactions.

4 More specifically, during the period covered by this Application, Howard, Rice
5 has performed the following services in connection with real estate-related sales matters:

6 a. In the earliest phase of this Chapter 11 case, Applicant generally advised
7 and counseled the Debtor respecting the various issues to be sensitive to under Section 363
8 when considering a real property sale transaction, as well as the related issues of retention of
9 professionals such as brokers and appraisers under other Bankruptcy Code sections.

10 b. Applicant also advised and counseled the Debtor with respect to the effect
11 (if any) in bankruptcy of state laws and regulations regarding sales of certain real property
12 applicable to the Debtor as a regulated utility outside of the bankruptcy context.

13 c. Applicant counseled the Debtor specifically in connection with a range of
14 real property sale transactions being negotiated or pending at the time of the Chapter 11
15 filing. This included the preparation of one or more clauses to be included in contracts
16 under negotiation pending either Bankruptcy Court approval or a determination whether
17 such approval or notice and an opportunity for hearing is necessary.

18 d. Applicant also counseled the Debtor in connection with actual or threatened
19 eminent domain proceedings and determining what Bankruptcy Court approvals, if any, are
20 necessary under Section 363 of the Bankruptcy Code and/or Rule 9019 of the Federal Rules
21 of Bankruptcy Procedure for a sale to a condemning agency based on a pre-eminent domain
22 judgment settlement with the condemning agency.

23 e. In light of the numerous real property-related sales transactions the Debtor
24 routinely undertakes, the difficulty of being able to determine in every instance whether a
25 proposed sale is or is not in the "ordinary course of business" for purposes of Section 363,
26 and the title policy issues that often arise when a debtor tries to consummate a sale of real
27 property without a bankruptcy court order, Applicant assisted the Debtor in preparing an
28 "omnibus" motion for the sale of real property (among other things) within specified dollar

1 parameters, such that the motion covers all real property sales below a threshold dollar
2 amount, and all sales below a higher specified amount so long as any such proposed sale is
3 noticed to the Committee and the Committee does not object to the proposed sale within a
4 specified number of days. In preparing this Motion, Applicant assisted the Debtor in
5 formulating the dollar thresholds and criteria based on the Debtor's recent historical
6 experience, and in determining and describing the full range of the Debtor's real property
7 sale activities so that the motion is placed in context and can be meaningfully evaluated.
8 After considerable effort in finalizing this motion and after obtaining the concurrence of the
9 Committee, Applicant recently filed this motion on behalf of the Debtor and it is scheduled
10 for hearing shortly.

11 f. Pending finalizing and proceeding to hearing on the pending omnibus sale
12 motion described above, Applicant also advised the Debtor in connection with determining
13 whether various proposed transactions required a motion or application to the Bankruptcy
14 Court and, if a proposed transaction did and the Debtor wished to be prepared to go forward,
15 Applicant prepared the necessary papers on behalf of the Debtor.

16 With respect to this category, the number of hours spent and the amount of
17 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
59.64	\$23,372.90

21 24. Reclamation Issues and Disputes (.027).

22 In the ordinary course of its business, PG&E deals with tens of thousands of
23 vendors and suppliers. Immediately after the Debtor's bankruptcy filing, many of its
24 vendors began sending notices to the Debtor purporting to preserve their rights under
25 Section 2702 of the California Commercial Code and Section 546(c) of the Bankruptcy
26 Code, to reclaim goods delivered to the Debtor. During the period covered by this
27 Application, Applicant performed the following services with respect to this matter:

28 a. Applicant consulted with the Debtor's representatives concerning the

1 numerous demands for reclamation and responded to requests by certain vendors.

2 b. Applicant assisted the Debtor in formulating a response to vendors' claims,
3 and in drafting a proposed stipulation with vendors.

4 c. Applicant also analyzed the reclamation claims of vendors to determine
5 whether their reclamation claims were timely asserted, and to ascertain which deliveries the
6 claims pertained to. In addition, Applicant regularly communicated with vendors
7 concerning their claims.

8 With respect to this category, the number of hours spent and the amount of
9 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
232.00	\$49,192.50

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13 25. California Independent Systems Operator (.028).

14 Amounts billed to this matter are described in Paragraph 19, above. (Future time
15 records will consolidate these matters.)

16 With respect to this category, the number of hours spent and the amount of
17 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
519.80	\$145,928

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21 26. Sierra Pacific Litigation (.029).

22 This matter number was created for a discrete piece of QF litigation that was
23 commenced in state court by Sierra Pacific Industries, Inc. ("SP"), a QF under contract with
24 PG&E, shortly before PG&E's Chapter 11 filing. SP claimed it had terminated its contract
25 with PG&E before the filing, and on the eve of the filing had obtained a temporary
26 restraining order from a California state court requiring the Cal ISO to "sell through" to the
27 DWR at the then-current highly inflated market price instead of selling to PG&E at the much
28 lower rate under the contract that purportedly had been terminated. In the face of SP and the

1 Cal ISO declining to recognize the applicability of the automatic stay to the continued force
2 or effect of the temporary restraining order, Applicant assisted the Debtor in analyzing its
3 options and determining to remove the action to the applicable Federal District Court in
4 Sacramento and then seek a transfer of venue to the "home" Bankruptcy Court in San
5 Francisco, so that the Bankruptcy Court with jurisdiction over PG&E's Chapter 11 case
6 could determine whether, how, where and when the action should proceed. To this end,
7 Applicant prepared the necessary removal papers and drafted a motion to transfer venue.

8 Applicant, after reviewing with the Debtor the merits of the underlying action,
9 assisted the Debtor in negotiations with SP for a stipulation transferring venue from the
10 District Court in Sacramento to the Bankruptcy Court in San Francisco, together with a
11 stipulated briefing and hearing schedule on the merits of SP's motion for a preliminary
12 injunction, to be decided by the Bankruptcy Court. After reaching and documenting such a
13 stipulation with SP and the Cal ISO and having it approved by the Bankruptcy Court,
14 Applicant then reviewed the opening brief and declarations filed by SP in support of its
15 motion for a preliminary injunction and assisted the Debtor in researching and preparing its
16 response brief and supporting papers. Applicant reviewed SP's reply papers and the Cal
17 ISO's papers in opposition to SP's motion. Applicant, along with an in-house counsel from
18 the Debtor, appeared on behalf of the Debtor at the hearing on the motion, and Applicant
19 reviewed the disputed form of Order prepared by SP after the hearing and prepared written
20 comments to the Court on such Order, some of which were adopted by the Court.

21 At various junctures in this matter, including after the order was entered by the
22 Court on the motion for preliminary injunction, Applicant represented the Debtor in one or
23 more settlement discussions with SP. When a global settlement evaded the parties' grasp,
24 Applicant on behalf of the Debtor engaged in negotiations with SP for a stipulation for relief
25 from stay for partial summary adjudication of key issues and ultimately successfully
26 concluded such a stipulation. It was then determined that the remaining issues of substantive
27 state law would most efficiently be handled by special litigation counsel for the Debtor, the
28 firm of Morgenstein & Jubelirer. Applicant conferred with special litigation counsel in

1 connection with this partial summary adjudication proceeding and reviewed SP's opening
2 papers and the Debtor's response papers in connection therewith. The motion for summary
3 adjudication is presently pending and scheduled for hearing on September 13, 2001.

4 With respect to this category, the number of hours spent and the amount of
5 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
100.10	\$32,069.50

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9 27. DWR Payment Action (.030).

10 Pursuant to AB1X, the DWR was given the authority to purchase power on
11 behalf of PG&E customers, with PG&E having the responsibility of delivering such power
12 and collecting from its customers on behalf of the DWR. The DWR was to determine what
13 its revenue needs were to pay for the power it purchased and to finance a bond issue to cover
14 previous spending for this power and to fund future purchases. A matter of critical
15 importance to the ongoing viability of the Debtor is the allocation of a portion of the
16 Debtor's revenue to the DWR. PG&E has serious concerns that the DWR will seek to
17 obtain a portion of PG&E revenues that are necessary for the Debtor's ongoing operations.
18 In this regard, Howard, Rice has assisted the Debtor in analyzing potential actions that might
19 be taken to prevent the Debtor's revenues from being misappropriated by the DWR.

20 With respect to this category, the number of hours spent and the amount of
21 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
230.10	\$70,795.00

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25 28. Schedules and Statement of Affairs (.031).

26 During the period covered by this Application, Applicant conferred with and
27 assisted the Debtor and certain consultants utilized by the Debtor in connection with the
28 preparation of the Debtor's Schedules and Statement of Affairs, which initially were filed on

1 May 11, 2001. Following the initial filing, Applicant assisted the Debtor in the preparation
2 of Amended Schedules and an Amendment to the Statement of Affairs, which were filed on
3 July 2, 2001.

4 With respect to this category, the number of hours spent and the amount of
5 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
93.0	\$35,753.00

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9 29. Intellectual Property-General (.032).

10 This work is a continuation of general counseling work that was commenced
11 prior to the bankruptcy filing regarding the protection of the Debtor's intellectual property.
12 With respect to this category, the number of hours spent and the amount of compensation
13 requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
2.70	\$746.50

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17 30. E-Commerce (.042).

18 This work is a continuation of the work that Applicant did prior to the
19 bankruptcy, advising PG&E on its new website and the various contracts and legal issues
20 that arise in servicing clients "on-line." In the period covered by this Application, a wide
21 array of legal issues have arisen concerning contractual arrangements and services to PG&E
22 customers provided on the PG&E website.

<u>Total Hours</u>	<u>Total Fees</u>
68.80	\$20,379.50

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26 31. Silicon Energy (.044).

27 This work is a continuation of a project that Howard, Rice undertook prior to the
28 commencement of this case, advising the Debtor in connection with a program to enable

1 large PG&E customers to review their usage information "on-line" through an arrangement
2 through Silicon Energy Corporation.

3 With respect to this category, the number of hours spent and the amount of
4 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
3.80	\$1,605.00

8 32. POSDEF (.047).

9 This matter was created for a discrete piece of litigation commenced by a QF
10 known as POSDEF in California state court shortly after PG&E's Chapter 11 filing. The
11 litigation was commenced against the Cal ISO, with POSDEF alleging that it had properly
12 terminated its power supply contract with PG&E pre-petition and seeking a temporary
13 restraining order requiring the Cal ISO to "sell through" POSDEF's power to the DWR at
14 the then-highly inflated market price rather than selling to PG&E at the much lower contract
15 price under the contract that had purportedly been terminated. Without any notice to or
16 knowledge of PG&E, the state court granted POSDEF the requested temporary restraining
17 order.

18 Applicant reviewed the state court pleadings and assisted the Debtor in evaluating
19 the options and determining to pursue the same strategy used with respect to the similar
20 Sierra Pacific litigation described in Paragraph 26 above. Accordingly, Applicant prepared
21 and filed the necessary removal papers removing the action from the state court to the
22 Federal District Court in San Francisco. Applicant then assisted the Debtor in engaging in
23 negotiations with POSDEF for the transfer of the action to the home Bankruptcy Court in
24 San Francisco. In such negotiations, POSDEF indicated that it wished to bring a motion to
25 remand back to state court, and Applicant on behalf of the Debtor ultimately reached a
26 stipulation with POSDEF and the Cal ISO for change of venue to the Bankruptcy Court in
27 San Francisco and for a stipulated briefing and hearing schedule on POSDEF's motion to
28 remand, and, if the motion for remand was not granted, on POSDEF's motion for a

1 preliminary injunction.

2 Applicant reviewed POSDEF's opening papers in support of its motion to
3 remand, reviewed the Cal ISO's papers in opposition to POSDEF's motion, and assisted the
4 Debtor in preparing its opposition papers. Applicant then reviewed POSDEF's reply papers
5 and, finally, the Court's tentative ruling on the motion issued prior to the scheduled hearing.
6 Against the backdrop and context of the tentative ruling, Applicant on behalf of the Debtor
7 negotiated with POSDEF and the Cal ISO for a stipulation accepting the tentative ruling
8 subject to certain conditions, which stipulation was successfully concluded. Based on such
9 stipulation, the action was transferred to the state court for a ruling on the merits of
10 POSDEF's request for a preliminary injunction.

11 With respect to this category, the number of hours spent and the amount of
12 compensation requested are as follows:

13	<u>Total Hours</u>	<u>Total Fees</u>
14	117.20	\$33,413.00

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16 33. Rule 2004 Exam Requests (.048).

17 PG&E has engaged in extensive efforts to obtain information pursuant to Federal
18 Rule of Bankruptcy Procedure 2004 regarding transactions involving billions of dollars in
19 the wholesale electricity markets maintained or operated by the ISO and the PX. Among
20 other things, PG&E seeks to evaluate and analyze hundreds of millions of dollars of claims
21 against it by electricity sellers and potential setoffs or counterclaims with respect to such
22 transactions. Based on the sheer magnitude and complexity of the claims involved, as well
23 as sellers' attempts to prevent disclosure or dissemination of such information, PG&E's
24 efforts to obtain this information have been quite costly and time-consuming. During the
25 period covered by this Application, Howard, Rice performed the following services with
26 respect to Rule 2004 examination issues:

27 a. Applicant prepared numerous requests for documents from the ISO and the
28 PX, and an ex parte application for Rule 2004 examinations with respect thereto, including

1 extensive legal research and factual investigation. After the ISO and the PX objected to the
2 resulting orders for Rule 2004 examinations, Applicant extensively “met and conferred”
3 with their counsel to seek to resolve such disputes, and argued for enforcement of such
4 orders at a hearing thereon.

5 b. After the Court vacated its Rule 2004 orders to provide participants in the
6 ISO and the PX markets with an opportunity to be heard on this matter, Howard, Rice
7 prepared a motion for authority to conduct such Rule 2004 examinations of the ISO and the
8 PX and for a protective order respecting the confidentiality of such information, including
9 extensive legal research and factual investigation. Howard, Rice reviewed and analyzed
10 numerous objections to such motion and engaged in dozens of hours of “meeting and
11 conferring” with the ISO, the PX, the PX Committee and numerous market participants in an
12 attempt to resolve such objections. Applicant substantially revised PG&E’s proposed order
13 on its Rule 2004 motion, including the protective order provisions, to address concerns
14 raised by such parties. Applicant prepared an analysis for the Court summarizing the
15 unresolved objections to the Rule 2004 motion and the bases of the parties’ respective
16 positions. Howard, Rice successfully argued at a lengthy hearing regarding the Rule 2004
17 motion, and extensively met and conferred with market participants and the PX Committee
18 with respect to the proposed orders reflecting the Court’s ruling. The Court ultimately
19 entered the orders proposed by Applicant, although such parties refused to approve the form
20 thereof.

21 c. Howard, Rice “met and conferred” with the ISO regarding its refusal to
22 comply with the Court’s order regarding production of certain categories of documents to
23 PG&E, and prepared papers seeking to have the Court compel such production, leading to
24 the ISO’s production of such documents.

25 d. Applicant prepared a motion seeking access by certain “key personnel” of
26 PG&E to the responsive information produced by the ISO and the PX, including extensive
27 factual investigation and legal research.

28 e. Applicant regularly advised and assisted PG&E with respect to the

1 foregoing matters.

2 With respect to this category, the number of hours spent and the amount of
3 compensation requested are as follows:

4 <u>Total Hours</u>	<u>Total Fees</u>
5 502.40	\$142,419.00

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7 34. Sempra Disputes and Litigation (.049).

8 PG&E has been involved with numerous disputes with Sempra Energy Trading
9 Corp. ("Sempra") arising from various agreements and transactions between the parties
10 aggregating hundreds of millions of dollars, including those involving gas lending and
11 storage, gas purchases and "swap" transactions, electricity sold through the ISO and the PX,
12 and asserted setoff rights with respect thereto. During the period covered by this
13 Application, Applicant performed the following services with respect to disputes and
14 litigation with Sempra:

15 a. Howard, Rice advised and assisted PG&E in analyzing the claims and
16 defenses against Sempra, and the potential adjudication of such disputes through arbitration
or litigation in the Bankruptcy Court, including extensive legal research and factual
18 investigation. Applicant also advised and assisted PG&E in preparing demand letters
19 regarding Sempra's unperformed obligations under the gas lending and storage agreement,
20 resulting in liability exceeding \$200 million.

21 b. Applicant advised and assisted PG&E in extensive settlement discussions
22 with Sempra in an effort to resolve such disputes. Howard, Rice actively participated in the
23 negotiation and documentation of a settlement deemed favorable to PG&E partially
24 resolving such disputes and obtained the Court's approval thereof.

25 c. Applicant prepared an extensive opposition to Sempra's motion for stay
26 relief to arbitrate its remaining disputes with PG&E, including extensive legal research and
27 factual investigation, and argued at the hearing thereon. Although the Court partially
28 granted the relief sought by Sempra, it imposed significant restrictions on the arbitration of

1 the parties' disputes, including prohibiting the arbitrator(s) from determining any net liability
2 potentially owed by PG&E to Sempra based on Sempra's asserted setoffs, and prohibiting
3 the arbitrator from determining certain issues of bankruptcy law. Howard, Rice extensively
4 negotiated the form of proposed order with Sempra's counsel, and prepared its own form of
5 order.

6 d. Howard, Rice advised and assisted PG&E with further settlement
7 negotiations with Sempra.

8 With respect to this category, the number of hours spent and the amount of
9 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
309.00	\$80,699.00

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13 35. Employee Co-Defendants (.050).

14 During the period covered by this Application, Applicant conducted research and
15 analysis of the effect of the filing of the bankruptcy, and the possibility of extending the
16 protection of the automatic stay, with respect to employees of PG&E who were named as co-
17 defendants in certain state and federal court actions. PG&E was concerned that the filing of
18 its bankruptcy would have a detrimental effect on those employees and the performance of
19 their job duties in cases where the real target of the litigation was the Debtor itself, in light of
20 the fact that the cases would be stayed against the Debtor but not necessarily against the
21 employee co-defendants. Applicant initially prepared a memorandum of points and
22 authorities which was intended to accompany a contemplated adversary proceeding seeking
23 a stay of these actions against the employee co-defendants, but such an action did not
24 become necessary during this period, as the Debtor has been able to negotiate satisfactory
25 resolutions with plaintiffs regarding these cases.

26 With respect to this category, the number of hours spent and the amount of
27 compensation requested are as follows:
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Total Hours

Total Fees

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\$15,401.00

36. E-Meter (.051).

As a result of a California legislative mandate, PG&E, along with other utilities, was required to place, and allow on-line access to, so-called "interval meters" by certain large customers (defined as those who use over 200 kw of electricity). Pursuant to such legislation, funding for installation of the interval meters is administered by the California Energy Commission (the "CEC"). However, due to the CEC's reluctance to contract directly with PG&E, as a debtor-in-possession, eMeter Corporation ("eMeter") was brought in as an intermediary. The result was that separate contracts were negotiated between the CEC and eMeter, on the one hand, and eMeter and PG&E, on the other hand, for funding the installation of the interval meters and for website display of data collected from such meters. PG&E also enlisted eMeter to provide much of the "backroom" services associated with website display of data collected from interval meters, including data collection, data storage, website hosting, and "on-line" presentation of data for PG&E customers, much of which required negotiation of "service attachments" to the basic contract that were essentially supplemental service agreements. Accordingly, this arrangement envisions PG&E acting as an agent or subcontractor for eMeter in fulfilling eMeter's obligations to the CEC, and eMeter acting as an agent or subcontractor for PG&E for the above-referenced "backroom" services. Not surprisingly, this complicated arrangement involved significant negotiation with eMeter, and negotiation with the CEC, both directly and through eMeter, in order to harmonize both contracts and the parties' respective intent. The project also involved virtually daily meetings with PG&E management and attorneys.

With respect to this category, the number of hours spent and the amount of compensation requested are as follows:

Total Hours

Total Fees

309.40

\$96,452.50

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1 37. Access Agreement (.052).

2 Howard, Rice consulted with in-house counsel, and reviewed and revised an
3 agreement drafted by in-house counsel, concerning the "on-line" contracting for and
4 conducting of PG&E's natural gas pipeline-related business.

5 With respect to this category, the number of hours spent and the amount of
6 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
7.90	\$3,673.50

10 38. Mirant Litigation (.053).

11 PG&E has been involved with numerous disputes with Mirant arising from
12 various agreements and transactions between the parties aggregating tens of millions of
13 dollars, including those involving electricity and gas purchase transactions, electricity sold
14 through the ISO and the PX, and asserted setoff rights with respect thereto. During the
15 period covered by this Application, Applicant performed the following services with respect
16 to disputes and litigation with Mirant:

17 a. Howard, Rice advised and assisted PG&E in analyzing the claims and
18 defenses against Mirant, including extensive legal research and factual investigation
19 regarding various setoff issues, including mutuality issues (based on third-party transactions
20 through the ISO and the PX) and unique issues with respect to forward contracts and similar
21 agreements.

22 b. Applicant advised and assisted PG&E in preparing demand letters regarding
23 Mirant's unperformed obligations under the parties' agreements, which PG&E believes have
24 caused it damages exceeding \$65 million. Howard, Rice also advised and assisted PG&E in
25 settlement discussions with Mirant in an effort to resolve such disputes.

26 With respect to this category, the number of hours spent and the amount of
27 compensation requested are as follows:

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<u>Total Hours</u>	<u>Total Fees</u>
47.50	\$12,710.00

39. Enron Disputes and Litigation (.054).

PG&E has been involved with numerous disputes with Enron arising from various agreements and transactions between the parties aggregating hundreds of millions of dollars, including those involving electricity and gas purchases and “swap” transactions, electricity sold through the ISO and the PX, and asserted setoff rights with respect thereto. During the period covered by this Application, Applicant performed the following services with respect to disputes and litigation with Enron:

- a. Applicant advised and assisted PG&E in analyzing the claims and defenses against Enron.
- b. Applicant advised and assisted PG&E in settlement discussions with Enron in an effort to resolve such disputes, including obtaining Enron’s agreement to extend the terms of the letters of credit securing Enron’s obligations to PG&E.

With respect to this category, the number of hours spent and the amount of compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
36.15	\$8,796.00

40. Oildale Energy (.055).

On June 4, 2001 (the business day following this Court’s denial of Oildale’s motion for relief under Sections 362 and 365 as discussed in Paragraph 18 above), Oildale Energy LLC filed a voluntary petition under Chapter 11 in the United States Bankruptcy Court for the Eastern District of California, Fresno Division.

Immediately upon filing its chapter 11 case, Oildale filed an Emergency Motion for Authority to Sell Electricity to Third Parties, and sought an Order Shortening Time to have the matter heard on three days’ notice. The motion essentially requested the same

1 relief which had been denied by this Court in its oral ruling of June 1, 2001. Applicant
2 communicated with Oildale's bankruptcy counsel, and prepared pleadings opposing the
3 motion and the request to shorten time. Howard, Rice appeared telephonically at a hearing
4 on the motion on June 8, 2001, at which time the Court vacated the Order Shortening Time,
5 and set the matter for evidentiary hearing on July 11, 2001. Applicant assisted in conducting
6 research and preparing pleadings for that hearing. On July 13, 2001, the Bankruptcy Court
7 in the Oildale case issued its ruling, denying Oildale's request to sell energy to third parties
8 in derogation of PG&E's rights under the PPA with Oildale.

9 With respect to this category, the number of hours spent and the amount of
10 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
27.40	\$8,363.50

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14 41. PSE Appeal (.056).

15 Having lost its motion seeking a determination that its executory contract with
16 PG&E terminated (as discussed in paragraph 18 above), PSE promptly filed a Notice of
17 Appeal of this Court's order denying that motion. PSE also sought to convince the District
18 Court that the matter was of sufficient urgency to warrant hearing the appeal on an
19 extremely accelerated schedule. Unfortunately, the District Court entered an Order
20 Shortening Time prior to hearing from PG&E regarding the alleged exigencies of this
21 appeal. Applicant prepared and argued a Motion for Reconsideration of the District Court's
22 Order Shortening Time, which the Court vacated after hearing. Howard, Rice conferred
23 with PG&E representatives concerning the appeal, researched, drafted and revised the
24 appellate brief for PG&E and argued the appeal before the District Court. The tasks
25 involved in drafting the appellate brief were complex (with PSE having challenged virtually
26 every substantive aspect of the Court's June 1, 2001 ruling) and were undertaken by
27 Applicant under extreme time pressures, as the District Court only extended PG&E's time to
28 file its appellate brief one week in vacating the Order Shortening Time.

1 With respect to this category, the number of hours spent and the amount of
2 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
637.30	\$154,490.50

6 42. Three Mountain Power (.057).

7 Applicant assisted the Debtor in reviewing and revising a construction contract,
8 specifications and other documents relating to the proposed construction by Three Mountain
9 Power, LLC of new transmission lines and a substation. In this transaction, Three Mountain
10 Power proposes to build the improvements subject to PG&E's specifications and review to
11 support a new generation facility. Applicant also attended lengthy negotiation sessions with
12 non-PG&E parties and their attorneys regarding the contracts. Work on this transaction
13 remains ongoing.

14 With respect to this matter, the number of hours spent and the amount of
15 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
17.7	\$6,637.50

19 43. Oildale Appeal (.058).

20 The Court entered an Order denying the Motion of Oildale Energy LLC to
21 Compel PG&E to Assume or Reject Power Purchase Agreement, as described more fully in
22 Paragraph 18 above. Oildale Energy LLC ("Oildale") timely filed a Notice of Appeal of that
23 Order.

24 Applicant assisted PG&E in analyzing the issues presented by this appeal, and
25 the effect of Oildale's status as a Chapter 11 debtor in possession on the appellate process.
26 Applicant analyzed Oildale's Designation of the Record for the appeal, researched the record
27 to determine whether any additional materials needed to be included in a counter-
28 designation, and researched the appropriate timing and manner for raising objections to

1 appellant's Designation of the Record. Applicant also researched and advised PG&E on a
2 number of issues regarding the bankruptcy appellate process and strategy.

3 Applicant also advised PG&E in connection with continuing efforts to resolve
4 disputes with Oildale on a consensual basis, and participated in a number of strategy
5 sessions and settlement discussions with that goal. As the Court will recall, PG&E and
6 Oildale ultimately did settle all of their disputes, resulting in a consensual assumption of the
7 Power Purchase Agreement between PG&E and Oildale.

8 With respect to this category, the number of hours spent and the amount of
9 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
59.68	\$16,224.29

13 SUMMARY OF FEES AND EXPENSES

14 Between April 6, 2001 and July 31, 2001, Applicant has expended 16,017.10
15 hours in the performance of the services described in paragraphs 1 through 43 above. A
16 summary of Howard, Rice's attorney and legal assistant time and their respective standard
17 hourly billing rates for the period from April 6, 2001 through July 31, 2001 is as follows:

<u>Attorney</u> ⁹	<u>Total Hours</u>	<u>Hourly Rate</u> ¹⁰	<u>Total Fees</u>
<u>Directors:</u> Barry A. Abbott	126.900	463.00	\$ 58,926.50

23 ⁹The resume of each professional person is attached as Exhibit "B" to this Application.
24 (This exhibit is not attached to the service copies of this document. You may obtain copies
25 of this exhibit in one of the following ways: through the "Pacific Gas & Electric Company
26 Chapter 11 Case" link accessible through the Bankruptcy Court's website
(www.canb.uscourts.gov), or by written request to Howard, Rice, Nemerovski, Canady,
Falk & Rabkin, Attn: Jerome Ferrer, Three Embarcadero Center, 7th Floor, San Francisco,
California 94111-4065.)

27 ¹⁰On May 1, 2001, Howard, Rice changed its standard hourly rates. The hourly rate
28 shown in this column represents each professional's "blended" rate for the period covered by
this Application.

1	Jennifer L. Blackman	2.50	340.00	850.00
2	Bernard A. Burk	3.10	385.00	1,193.50
3	Pauline E. Calande	39.00	385.00	14,998.50
4	Jerome B. Falk	195.30	518.00	101,182.50
5	Simon J. Frankel	49.60	320.00	15,872.00
6	Joseph B. Hershenson	159.10	373.00	59,349.00
7	Gary M. Kaplan	778.90	335.00	261,387.00
8	William J. Lafferty	973.58	358.00	348,319.79
9	James L. Lopes	992.00	516.00	511,837.50
10	Steven L. Mayer	76.40	463.00	35,439.50
11	Timothy S. McCann	26.00	410.00	10,660.00
12	Kenneth A. Neale	159.70	370.00	59,136.00
13	Janet A. Nexon	743.00	381.00	283,137.50
14	Jeffrey L. Schaffer	634.51	411.00	260,941.87
15	Steven E. Schon	394.30	425.00	167,965.00
16	Ethan P. Schulman	136.70	384.00	52,562.00
17	Therese M. Stewart	177.70	395.00	70,152.00
18	Associates:			
19	Sachin Adarkar	12.80	273.00	3,498.00
20	Kimberly A. Bliss	534.00	214.00	114,378.00
21	Marty Courson	754.10	280.00	210,278.00
22	Juliet E. Dawsari	64.30	214.00	13,776.50
23	Peter J. Drobac	339.60	252.00	85,623.00
24	Tyler J. Fuller	447.10	239.00	106,994.00
25	Marc A. Greendorfer	135.00	257.00	34,812.00
26	Shirish Gupta	161.60	215.00	34,744.00
27	Sherri Sokeland Kaiser	32.00	240.00	7,680.00
28				

1	Inna M. Katsen	193.50	215.00	41,602.50
2	Sarah M. King	523.30	262.00	137,057.50
3	Amy E. Margolin	761.80	296.00	225,877.00
4	J. Alexander Moore	275.30	263.00	72,479.50
5	Kimberly A. Proctor	89.90	214.00	19,259.00
6	Ashok Ramani	16.00	240.00	3,840.00
7	Alison B. Shames	2.30	255.00	586.50
8	Mark A. Sheft	49.00	280.00	13,720.00
9	Clara J. Shin	207.20	178.00	36,907.00
10	Erik M. Silber	269.70	251.00	67,869.50
11	John O. Sutton	167.60	182.00	30,410.00
12	Ceide Zapparoni	672.60	239.00	160,215.00
13				
14	<u>Legal Assistants/Legal Assistant Clerks</u>			
15	Ailyn C. Aquino	5.60	125.00	700.00
16	Josh Bennett	314.30	100.00	31,430.00
17	Kathleen A. Boyd	441.50	185.00	81,296.50
18	Victoria Campbell	26.40	136.00	3,627.00
19	Ann E. Carey	6.50	165.00	1,072.50
20	John C. Carrillo	32.50	165.00	5,362.50
21	R. Michael Cianfrani	3.20	120.00	384.00
22	Jerome E. Ferrer	632.80	168.00	106,643.00
23	Corey M. Greenfield	4.50	165.00	742.50
24	Bryan J. Gresham	596.98	173.00	103,840.38
25	Jeanette Haggas	18.40	97.00	1,782.50
26	Nathaniel H. Hunt	489.03	95.00	46,528.17
27	Phil Layzer	6.30	120.00	756.00
28				

HOWARD
RICE
NEMEROVSKI
CANADY
BALK
& RABIN
A Professional Corporation

1	Steven F. Lewis	5.40	165.00	891.00
2	Racquel N. Lopez	494.20	127.00	63,349.00
3	Michelle Miranda-Albanese	2.10	175.00	367.50
4	Jason Nahm	5.30	100.00	530.00
5	Padraig J. O'Connor	599.60	128.00	77,152.00
6	Phyllis O'Dea	205.60	183.00	37,843.50
7	Ana K. Rodriguez	6.50	150.00	975.00
8	Dawn Marie Taylor	8.70	166.00	1,444.50
9	Linda K. Vallin	46.80	150.00	7,020.00
10	Leah C. Wilson	2.40	85.00	204.00
11	Kinson Yee	43.00	130.00	5,588.00
12	Alexa L. Green	4.00	90.00	360.00
13	Steven P. Mackin (Librarian)	5.70	110.00	605.00
14				
15	<u>Summer Associates:</u>			
16	E. Dorsey Heine	14.60	180.00	2,628.00
17	Niki N. Mehan	39.90	180.00	7,182.00
18	Sam Weinstein	13.80	180.00	2,484.00
19	Ajay S. Krishnan	99.00	180.00	17,820.00
20	Christine X. Nguyen	17.70	180.00	3,186.00
21				
22	<u>Litigation Support/Info. Services</u>			
23	Sharon B. Brown	54.30	170.00	9,231.00
24	Alex Glick	81.50	140.00	11,410.00
25	Mohamed Osman	67.30	150.00	10,095.00
26	Karla Webbe	123.00	179.00	22,072.00
27				
28	Based on these hours and rates, the value of the legal services rendered by			

1 Applicant during the period covered by this Application is \$4,411,351.22. However,
 2 Applicant has written off \$5,400 at the Debtor's request, and \$3,831.50 in time of
 3 professionals who have devoted minimal time to this case (i.e., less than two hours).
 4 Accordingly, Applicant is requesting \$4,402,119.72 in legal services.

5 Applicant has also incurred and advanced costs in the sum of \$286,348.67 on
 6 PG&E's behalf for which Howard, Rice requests reimbursement as follows:

7	Document Copying	\$133,841.11
8	Meeting Expense	1,370.65
9	Messenger and Delivery Expense	14,113.91
10	Recording or Filing Fees	3,365.57
11	Telecommunications	1,588.20
12	Travel Expenses	359.95
13	Reporter's Transcripts	8,260.39
14	Postage	4,503.19
15	Computerized Research	112,531.84
16	Outgoing Facsimile	<u>6,413.86</u>
17		\$286,348.67

18 Attached as Exhibit "C" is a description of Howard, Rice's expense policies
 19 which, except as discussed below, are consistent with the Guidelines for Compensation and
 20 Expense Reimbursement of Professionals established by the United States Bankruptcy Court
 21 for the Northern District of California (the "Guidelines"). Applicant has written down
 22 \$140,670.26 of its expenses incurred in order to be in compliance with the Guidelines.¹¹

23 Applicant customarily charges its clients \$1.00 per page for outgoing facsimiles
 24 but does not charge for incoming facsimiles. Applicant's accounting and billing systems are
 25 set up accordingly. Applicant seeks recovery of its outgoing facsimile charges at the rate of
 26 \$0.20 per page for the period covered by this Application, but seeks no recovery for
 27 incoming facsimile charges. Applicant believes that such compensation is appropriate in

28 ¹¹ Applicant does not seek reimbursement for costs incurred for word processing services, clerical and secretarial overtime expenses, certain fax charges (as explained in more detail in the text), meals and various "extraordinary expenses" not permitted by the Guidelines, which together aggregate \$140,670.26. Accordingly, Applicant is writing off \$140,670.26 in expenses incurred by Applicant on behalf of the Debtor.

1 view of its customary accounting and billing practices. Otherwise, if Applicant were unable
2 to recover any compensation for its outgoing facsimile charges (while not obtaining any
3 compensation for incoming facsimile charges), it would be unfairly penalized because of its
4 customary accounting and billing practices. Such a result would be particularly unfair in
5 view of the relatively large amount of faxing which was mandated by (1) the exigencies of
6 several matters included in this Application (e.g., the notices regarding many QF matters
7 were required to be done by facsimile), and (2) the need to serve by facsimile a large volume
8 of relevant documents on a group of creditors (primarily QFs) who were actively involved in
9 such matters. Although, for similar reasons, Applicant also *received* a large amount of
10 facsimiles during the period covered by this Application, because Applicant's accounting
11 and billing systems are not set up to capture such charges, Applicant does not seek recovery
12 for incoming facsimile charges. Accordingly, Applicant requests that the Court approve
13 recovery for outgoing facsimile charges, calculated at the rate of \$0.20 per page (consistent
14 with the amount allowed for incoming facsimiles under the Guidelines), an 80% reduction
15 from the rate Applicant customarily charges its client for outgoing facsimiles.

16 Accordingly, the aggregate value of services rendered and costs advanced during
17 the period covered by this Application (net of write-offs) is \$4,688,468.39.

18 No agreement or understanding exists between Howard, Rice and any other
19 person or entity for a division of the compensation sought herein.

20 The Certification/Declaration of an attorney designated by Applicant pursuant to
21 Guideline No. 8 is attached.

HOWARD
RICE
NEMEROVSKI
CANADY
BALK
& RABIN
A Professional Corporation

1 WHEREFORE, Howard, Rice requests that it be allowed total compensation of
2 \$4,688,468.39 for services rendered and reimbursement of expenses for the period of
3 April 6, 2001 through July 31, 2001 (comprised of \$4,402,119.72 in fees for services
4 rendered and \$286,348.67 in costs advanced on behalf of the Debtor).

5 DATED: September 17, 2001.

6 Respectfully,

7 HOWARD, RICE, NEMEROVSKI, CANADY,
8 FALK & RABKIN
9 A Professional Corporation

10 By: 
11 JAMES L. LOPES

12 Attorneys for Debtor and Debtor in Possession
13 PACIFIC GAS AND ELECTRIC COMPANY

14 WD 091701/1-1419904/gff/942227/v7

15 HOWARD
16 RICE
17 NEMEROVSKI
18 CANADY
19 FALK
20 & RABKIN
21 A Professional Corporation

1 **CERTIFICATION**

2
3 1. I am an attorney duly licensed to practice in the State of California and
4 before this Court. I am a director and shareholder at the law firm of Howard, Rice,
5 Nemerovski, Canady, Falk & Rabkin, A Professional Corporation (the "Howard, Rice
6 firm"), counsel to Pacific Gas and Electric Company, the debtor in the above-captioned
7 bankruptcy case (the "Debtor"). I make this declaration from personal knowledge (except as
8 to any matters stated as to information and belief, and as to such matters, I am informed and
9 believe they are true) and could, if called as a witness, competently testify to the matters set
10 forth herein.

11 2. By this declaration, I submit in declaration form the information required
12 pursuant to Guideline No. 8 of the Guidelines for Compensation and Expense
13 Reimbursement of Professionals and Trustees issued by the United States Bankruptcy Court
14 for the Northern District of California (the "Guidelines").

15 3. I am an attorney designated by Applicant to sign this Application on its
16 behalf. I have read and reviewed the Application, including without limitation the
17 Introduction, Summary of Professional Services, Summary of Fees and Expenses and the
18 invoices/billing statements filed separately, and, to the best of my knowledge, information
19 and belief, the fees and expenses requested in said Introduction, Summaries and
20 invoices/billing statements are true and correct and accurate for professional services
21 rendered and costs advanced by the Howard, Rice firm on behalf of the Debtor.

22 4. To the best of my knowledge, information and belief formed after
23 reasonable inquiry, the compensation and expense reimbursement sought in the Application
24 is in conformity with the Guidelines, except for the request for recovery of outgoing
25 facsimile charges as discussed in the Summary of Fees and Expenses section of the
26 Application.

27 5. The compensation and expense reimbursement requested in the Application
28 are billed at rates, and in accordance with practices, no less favorable than those customarily

1 clients.

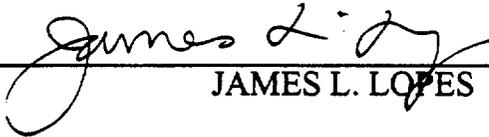
2 6. No agreement or understanding exists between Applicant and any other
3 person or entity for a division of the compensation sought herein.

4 7. Attached to the Application as Exhibit D is a true and correct copy of a
5 letter dated September 17, 2001 from the Howard, Rice firm (under my signature) to the
6 Debtor's designated responsible individual for this Chapter 11 case, advising the Debtor of
7 its review and objection rights and responsibilities per the Guidelines. To the best of my
8 knowledge, information and belief, such letter was transmitted by hand delivery on
9 September 17, 2001.

10 I declare under penalty of perjury under the laws of the United States of
11 America that the foregoing is true and correct. This declaration was executed in San
12 Francisco, California on September 17, 2001.

13 Dated: September 17, 2001.

14 HOWARD
15 RICE
16 NEMEROVSKI
17 CANADY
18 FALK
19 & RABIN
20 A Professional Corporation

21 
22 _____
23 JAMES L. LOPES

16

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18 WD 091701/1-1419904/gff/942227/v7

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28

1 JAMES L. LOPES (No. 63678)
JEFFREY L. SCHAFFER (No. 91404)
2 JANET A. NEXON (No. 104747)
WILLIAM J. LAFFERTY (No. 120814)
3 HOWARD, RICE, NEMEROVSKI, CANADY,
FALK & RABKIN
4 A Professional Corporation
Three Embarcadero Center, 7th Floor
5 San Francisco, California 94111-4065
Telephone: 415/434-1600
6 Facsimile: 415/217-5910

7 Attorneys for Debtor and Debtor in Possession
PACIFIC GAS and ELECTRIC COMPANY

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

12 In re
13 PACIFIC GAS and ELECTRIC
COMPANY, a California corporation,
14 Debtor.

No. **01 30923**
Chapter 11 Case
[NO HEARING SET]

DM

15
16 Federal I.D. No. 94-0742640

17
18 ORDER APPROVING APPLICATION FOR AUTHORITY TO EMPLOY
HOWARD, RICE, NEMEROVSKI, CANADY, FALK & RABKIN, A
19 PROFESSIONAL CORPORATION, AS COUNSEL TO DEBTOR AND
DEBTOR IN POSSESSION AND TO CONTINUE EMPLOYMENT OF
20 HOWARD, RICE, NEMEROVSKI, CANADY, FALK & RABKIN
21 ON NON-BANKRUPTCY MATTERS

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EMERIT

FILED

01 MAY 29 AM 9:45

NEERAN G. CASADY, CLERK
U.S. BANKRUPTCY COURT
NORTHERN DIST. OF CA.
SAN FRANCISCO, CA.

1 The Court having reviewed the Application For Authority To Employ Howard,
2 Rice, Nemerovski, Canady, Falk & Rabkin, A Professional Corporation As Counsel to
3 Debtor and Debtor in Possession and to Continue Employment of Howard, Rice,
4 Nemerovski, Canady, Falk & Rabkin on Non-Bankruptcy Matters (the "Application") filed
5 herein by Pacific Gas and Electric Company, the debtor and debtor in possession
6 ("Applicant" or the "Debtor") in the above-captioned case, and the declaration of James L.
7 Lopes in support of the Application (the "Declaration"), the Court having found that the
8 Application and Declaration comply with Sections 327(a) and 329(a) of the Bankruptcy
9 Code and Bankruptcy Rules 2014(a) and 5002(a), and good cause appearing therefor,

10 **IT IS HEREBY ORDERED** that Applicant is authorized to employ the law firm
11 of Howard, Rice, Nemerovski, Canady, Falk & Rabkin, A Professional Corporation (the
12 "Howard, Rice firm") as its general counsel, to represent Applicant as the debtor during the
13 pendency of this case under Chapter 11 of the Bankruptcy Code, and to continue to employ
14 the Howard, Rice firm on the non-bankruptcy matters referenced in the Application, i.e., the
15 "Intellectual Property Matters" and the "Appellate Matters", on the terms and conditions set
16 forth in the Application.

17 MAY 26 2001

18 DATED: ~~April~~, 2001

DENNIS MONTALI

19
20 UNITED STATES BANKRUPTCY JUDGE

21
22 The court's Guidelines for Compensation
23 and Expense Reimbursement will apply.
24 A copy may be obtained from the clerk's
25 office.
26
27
28

Exhibit B is not attached to the service copies of this document. You may obtain copies of this exhibit in one of the following ways: through the “Pacific Gas & Electric Company Chapter 11 Case” link accessible through the Bankruptcy Court’s website (www.canb.uscourts.gov), or by written request to Howard, Rice, Nemerovski, Canady, Falk & Rabkin, Attn: Jerome Ferrer, Three Embarcadero Center, 7th Floor, San Francisco, California 94111-4065

Law Offices Of
HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN

A Professional Corporation

September 17, 2001

Three Embarcadero Center
Seventh Floor
San Francisco, CA 94111-4065
Telephone 415.434.1600
Facsimile 415.217.5910
www.howardrice.com

Writer's Information:

James L. Lopes
Direct: 415.399.3015
jlopes@hrice.com

BY MESSENGER

Pacific Gas and Electric Company
Attn: Gordon R. Smith, President and
Chief Executive Officer
77 Beale Street
San Francisco, CA 94105

Re: In re Pacific Gas and Electric Company
Case No. 01-30923 DM

Dear Gordon:

I enclose herewith a copy of our firm's First Interim Application for Compensation and Reimbursement of Expenses By Counsel for Debtor and Debtor-In-Possession. A hearing on the Application is scheduled for October 22, 2001 at 10:00 a.m. and the last date to file and serve any objections to the Application is seven days before the scheduled hearing date.

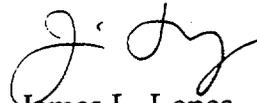
Please be advised that the Court's Guidelines for Compensation and Expense Reimbursement of Professionals provide that a debtor-in-possession, a trustee or an official committee must exercise reasonable business judgment in monitoring the fees and expenses of the estate's professionals. I invite you to discuss any objections, concerns or questions you may have with us, although we have been getting feedback on a monthly basis and have adjusted bills in response to comments received. The Office of

EXHIBIT D

Pacific Gas and Electric Co.
Attn: Roger J. Peters, Esq.
September 17, 2001
Page 2

the United States Trustee will also accept your comments. The Court will also consider timely filed objections by any party in interest at the time of the hearing.

Very truly yours,



James L. Lopes

Enclosures

cc: Roger J. Peters, Esq. (w/encl.)
Iathan Annand, Esq. (w/encl.)