

1 Paul S. Aronzon (#88781)
2 Robert Jay Moore (#77498)
3 Michael I. Sorochinsky (#166708)
4 MILBANK, TWEED, HADLEY & McCLOY LLP
5 601 South Figueroa Street, 30th Floor
6 Los Angeles, California 90017
7 Telephone: (213) 892-4000
8 Facsimile: (213) 629-5063
9 Counsel for Official Committee
10 of Unsecured Creditors

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**UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION**

In re

PACIFIC GAS AND ELECTRIC
COMPANY, a California corporation,

Debtor.

Case No. SF 01-30923 DM

Chapter 11

**FIRST INTERIM APPLICATION OF
MILBANK, TWEED, HADLEY & McCLOY
LLP FOR ALLOWANCE AND PAYMENT
OF COMPENSATION AND
REIMBURSEMENT OF EXPENSES
(APRIL 16, 2001 THROUGH JULY 31, 2001)**

Hearing:

Date: October 11, 2001
Time: 10:00 a.m.
Place: 235 Pine Street, 22nd Floor
San Francisco, CA

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add: Kids Eye Mail Center

1 **TO THE HONORABLE DENNIS MONTALI, UNITED STATES BANKRUPTCY**
2 **JUDGE, THE OFFICE OF THE UNITED STATES TRUSTEE, THE DEBTOR, AND**
3 **OTHER PARTIES IN INTEREST:**

4 Milbank, Tweed, Hadley & McCloy LLP (“Milbank”), counsel to the Official
5 Committee of Unsecured Creditors (the “Committee”) appointed in the above-captioned chapter
6 11 case (the “Case”) of Pacific Gas and Electric Company, Debtor and Debtor in Possession
7 (“PG&E” or the “Debtor”), hereby submits its first interim application for allowance and
8 payment of compensation and reimbursement of costs and expenses (the “First Interim
9 Application”) covering the almost four-month period from April 16, 2001 through and including
10 July 31, 2001 (the “First Application Period”). In support of the First Interim Application,
11 Milbank respectfully represents as follows:

12 **I.**

13 **INTRODUCTION**

14 This is Milbank’s first interim application for approval of compensation and
15 reimbursement of expenses for services rendered on behalf of the Committee in connection with
16 the Case. Milbank submits this First Interim Application in accordance with Bankruptcy Code
17 sections 330 and 331, Rule 2016 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy
18 Rules”), the Office of the United States Trustee for the Northern District of California Guidelines
19 (the “UST Guidelines”), and the United States Bankruptcy Court Northern District of California
20 Guidelines for Compensation and Expense Reimbursement of Professionals and Trustees (the
21 “Court Guidelines”).
22

23 Pursuant to this First Interim Application, Milbank seeks interim approval and
24 allowance of \$2,219,496.00 in fees accrued for services rendered in connection with the Case by
25 Milbank professionals who recorded a total of 5404.9 hours on behalf of the Committee during
26 the First Application Period. Milbank also seeks interim approval and allowance of \$149,198.57
27 in costs and expenses incurred by Milbank on behalf of the Committee during that same period.
28 Accordingly, pursuant to this First Interim Application, Milbank seeks allowance of a total of

1 \$2,368,694.57 for services rendered and reimbursement of costs and expenses incurred.
2 Milbank's First Interim Application reflects voluntary reductions in fees and costs totaling about
3 \$110,000, as described in greater detail in Section III.B. below. Milbank to date has received
4 payment of fees in the amount of \$358,727.85 and reimbursement of expenses in the amount of
5 \$10,091.90 on account of the Monthly Cover Sheet Application for the period of April 16, 2001
6 through April 30, 2001, leaving a balance due of \$1,999,874.82. The services performed and
7 costs and expenses incurred during the First Application Period are summarized in Sections III
8 and IV, respectively, below, and are detailed in the exhibits filed concurrently herewith.

9
10 **II.**
11 **MILBANK'S ROLE IN THE CASE**
12 **DURING FIRST APPLICATION PERIOD**

13 PG&E commenced the Case with the filing of a voluntarily petition under chapter
14 11 of the Bankruptcy Code on April 6, 2001 (the "Petition Date"), thereby precipitating what has
15 been characterized as the third largest, and certainly one of the most complex, bankruptcy cases
16 in United States history. At the time of the filing, the State of California was deep in the throes
17 of an energy crisis that threatened the solvency and very viability of PG&E, as well as the
18 financial health and well-being of the State of California and its residents. PG&E had been
19 purchasing power to meet a significant portion of its load, the "net short" position, through the
20 California Power Exchange at spot prices that had escalated wildly over the prior year.
21 Moreover, California was experiencing a shortfall in generation capacity available to investor
22 owned utilities such as PG&E, exacerbated by drought conditions in the Pacific Northwest that
23 had reduced the supply of imported hydroelectric power and rising natural gas prices that had put
24 severe pressure on wholesale electric prices and given rise to the loss of some generation
25 capacity of certain Qualifying Facilities ("QFs") that were experiencing economic hardship.
26 Indeed, PG&E had only made partial payment to such QFs for contractual obligations that had
27 arisen during the months prior to the Petition Date.

1 As a regulated utility subject to a disputed rate freeze pursuant to AB 1890,
2 PG&E's revenues from retail power sales had been subject to a rate cap that for some time had
3 left PG&E in a position where it was not able to cover its operating costs. Literally billions of
4 dollars of equity value had eroded. As PG&E's credit ratings tumbled, PG&E found itself
5 unable to purchase the power needed to cover its net short position through the California Power
6 Exchange and in jeopardy of being able to fulfill its statutory duty to serve the public. In the
7 midst of this crisis, the Governor of the State of California had issued an emergency order and
8 legislation was enacted that put the California Department of Water Resources (the "CDWR")
9 into the business of purchasing power to cover PG&E's net short position, with resulting
10 uncertainties as to the implications on PG&E and California ratepayers.

11 Negotiations with the Governor to address the problem through a legislative fix
12 were frustrated by the complications of competing federal and state regulatory interests, the
13 tremendous size of the economic problem, the failure of California deregulated electric power
14 market and the California Power Exchange, and the inability to control unpredictable future
15 wholesale electricity and natural gas prices. Failing to reach what it perceived to be an
16 acceptable legislative solution, PG&E commenced the Case.

17
18 Recognizing the enormous complexity of the problem, the compelling public
19 interest in finding a resolution that would not jeopardize PG&E's ability to continue to serve its
20 4.5 million customers in Northern California, and the need to address satisfaction of over \$13
21 billion in pre-petition debt owed to, among others, financial institutions that had provided the
22 financing for PG&E's infrastructure and operations, power generators and marketers that had
23 supplied electric energy and natural gas to PG&E, and in excess of 30,000 trade creditors, the
24 Office of the United States Trustee ("U.S. Trustee") acted quickly to appoint an official
25 committee of unsecured creditors in the Case. The Committee was formed on April 10, 2001,
26 and just six days later the Committee selected Milbank to act as its counsel after interviewing
27 several potential law firms.

1 Milbank, on behalf of the Committee, and in conjunction with the other financial
2 advisors and their experts employed by the Committee, immediately turned to the task of
3 developing an understanding of the Debtor's operations, its financial condition, its assets and
4 liabilities, pending litigation, and the complex regulatory framework that governs the Debtor.
5 Milbank also was called upon to develop the internal framework for governance of the
6 Committee, the mechanisms for effective and timely communication with the Debtor, the review
7 of and response to the myriad of contested and administrative matters that needed to be
8 addressed in connection with the administration of the Case and PG&E's estate, and the
9 monitoring of actions by and proceedings before the Federal Energy Regulatory Commission
10 (the "FERC"), the California Public Utilities Commission (the "CPUC"), the California Energy
11 Commission (the "CEC"), the CDWR, the California Legislature, and the offices of the
12 Governor, the Attorney General, the Treasurer, and other representatives of the State of
13 California.

14 Milbank, in conjunction with the Committee's advisors, developed a
15 comprehensive list of issues that needed to be analyzed and addressed, including: (a) issues
16 relating to the formulation of a confirmable and feasible plan of reorganization in the context of
17 an extremely complex federal and state regulatory environment, the sensitive political
18 environment, the corollary problems being experienced by other investor owned utilities in the
19 state, the dearth of historical or case law precedent governing regulated utility reorganization,
20 and the inherent economic problems and uncertainties; (b) issues relating to PG&E's revenues as
21 recovered through its retail rates, specifically including issues relating to the California
22 Procurement Adjustment under AB 1X, rates issues with respect to recovery of energy
23 procurement costs by the CDWR, and analysis of procedural and substantive aspects of PG&E's
24 filed rate case; (c) issues with respect to identification and valuation of assets of the Debtor,
25 including operational asset rationalization, implications of federal and state regulatory provisions
26 and applicable bankruptcy law on PG&E's generation, transmission and distribution assets,
27 valuation and recovery of the Debtor's claims arising from the State's commandeering of
28

1 PG&E's positions with the California Power Exchange in the block-forward market, tax
2 considerations, and analysis of related party transactions; (d) issues relating to PG&E's
3 liabilities, including treatment of the net short position, treatment of the power purchase
4 agreements between PG&E and the QFs, and the status of PG&E's existing secured financings;
5 and (e) issues with respect to PG&E's interactions with the State of California and the California
6 Legislature, including implications of the evolving legislative response to the Memorandum of
7 Understanding (the "MOU") among Southern California Edison Company ("Edison"), Edison
8 International and the CDWR executed just three days following the Petition Date.

9
10 Milbank and the Committee have participated actively in all aspects of the Case
11 since its formation. The Committee has developed a positive working relationship with PG&E
12 and its various professionals. Milbank and counsel for PG&E consult on a daily basis regarding
13 various operational, strategic, and litigation issues that arise in the Case and in related fora.
14 Pursuant to the Committee's request and the consent of the Debtor, the Committee frequently is
15 given an opportunity to review and comment on draft pleadings, address Committee concerns
16 with respect to underlying business decisions, and negotiate with PG&E with respect to its
17 position and its proposals to address Committee concerns, where appropriate. This approach has
18 expedited the Debtor's reorganization efforts, reduced professional fees and other administrative
19 expenses that would arise in the context of a less constructive relationship, and reduced, and in
20 some cases eliminated, unnecessary litigation.

21 The efforts of Milbank and the Committee and its other professionals during the
22 First Application Period have contributed towards the stabilization of PG&E's operations and the
23 resolution or elimination of significant litigation. Milbank and the Committee's other
24 professionals have developed economic and settlement models and, participating in advocacy
25 and mediation roles, helped to give direction to resolution of thorny issues such as the treatment
26 to be accorded the QFs and their various potential claims. The constructive efforts of Milbank,
27 as counsel to the Committee, have contributed to the speed and relative calm with which
28 numerous potentially highly combustible issues have been resolved, and have put the Committee

1 in the position late in the First Application Period to begin focusing in great depth and diligence
2 on negotiations that may lead to the formulation and filing a plan of reorganization at what must
3 be considered an extremely early point in a case of such enormous complexity involving not only
4 significant economic, but also significant legal, political and regulatory, issues.

5 **III.**

6 **SUMMARY OF SERVICES RENDERED BY MILBANK**

7
8 During the First Application Period, Milbank represented and advised the
9 Committee with respect to a wide range of issues and challenges. Due to the comprehensive
10 nature of the services rendered by Milbank during the First Application Period, no attempt is
11 made herein to detail the totality of such services. The full scope of the services rendered by
12 Milbank is set forth in detail in the billing reports filed concurrently herewith under the caption
13 entitled "Milbank, Tweed, Hadley & McCloy LLP's Time Records Exhibit for the Period
14 April 16, 2001 to July 31, 2001" (the "Billing Reports"). However, in order to assist the Court,
15 the United States Trustee, PG&E and other parties in interest in reviewing this First Interim
16 Application, a brief summary of Milbank's billing procedures and the services rendered by
17 Milbank during the First Application Period with regard to each activity code category, including
18 certain undertakings within each category, is set forth below.

19 **A. Committee Structure and Milbank's Internal Staffing.**

20
21 Milbank was selected as counsel to the Committee not only because of its
22 expertise and experience in connection with complex bankruptcies and financial reorganizations,
23 particularly those involving significant regulatory and public financing aspects, but also by
24 reason of its expertise and depth of resources in the utility, power and energy, project finance,
25 banking and institutional investment, capital markets, securitization, taxation and litigation
26 practice areas. Because of the breadth and depth of Milbank's experience, the Committee has
27 been able to look to one law firm, Milbank, to provide it with advice, counseling and
28 representation in the wide range of areas of expertise that have been required. Given the

1 demands of the Case, PG&E naturally has had to turn to a number of law firms, including those
2 with which it had pre-Petition Date relationships, to provide the wide array of services required.
3 Additionally, PG&E's parent corporation, as the sole shareholder of the Debtor, has devoted its
4 substantial resources, both internally and in the form of numerous outside legal and financial
5 advisors, to assist PG&E in connection with the Case. As the Committee's sole law firm,
6 Milbank has been able, and required, to interact with the numerous law firms employed by
7 PG&E and its parent in connection with this engagement. Milbank's capacity has had the benefit
8 of providing great efficiency and savings to its client, the Committee, and to the estate generally.

9 The Committee is composed of eleven (11) individual members. In order to more
10 efficiently fulfill its fiduciary duties and facilitate its functions, the Committee established the
11 following working groups: the Litigation Subcommittee; the Finance Subcommittee; the
12 Legislative and Regulatory Subcommittee; and the Plan Working Group. Milbank attempts to
13 provide counsel to each of the Subcommittees and the Plan Working Group through attorneys
14 with expertise and knowledge most pertinent to each working group's areas of designated
15 responsibility and the reports and action items that are agendaized for their meetings. The
16 Subcommittees and Plan Working Group typically report on their activities to the full Committee
17 at periodic meetings held by telephone conference call or in person in San Francisco, frequently
18 in conjunction with direct in-person meetings with PG&E's senior management. Milbank
19 believes that through its internal division of responsibility and the Subcommittee structure, the
20 Committee, and the estate, has received the benefit of efficient and effective delivery of legal
21 services.

22
23 Given the broad range of responsibilities and intense time pressures imposed on
24 Milbank at the outset of the Case, Milbank determined to staff the matter in a manner that would
25 maximize its efficiency. For this reason, financial restructuring partner Paul Aronzon assumed
26 primary responsibility for intra-Committee communications and coordination of the Plan
27 formulation process with the Committee's financial advisors and PG&E and its advisors.
28 Financial restructuring partner Robert Moore focused on the Bankruptcy Court pleading and

1 appearance process and spearheaded the interface with PG&E and its counsel regarding the
2 settlement dialogue process with respect to contested matters. Energy regulatory partner Ed Feo
3 has focused on analysis of FERC and CPUC proceedings and the California legislative process
4 as they relate to PG&E's operations, strategies and plan formulation. Energy finance partner
5 Allan Marks has focused on analysis of PG&E's financing structures, the prospective CDWR
6 bond financing and PG&E's exit financing. Litigation partner Michael Diamond assumed
7 primary responsibility for Milbank's participation in adversary proceedings and non-bankruptcy
8 court litigation matters. Within this framework, Milbank attempts to minimize its charges by,
9 among other things, (a) attending Bankruptcy Court hearings by telephone conference call, when
10 appropriate, (b) monitoring proceedings before the FERC, the CPCU, the California Legislature,
11 the United States Congress, and other tribunals or other agencies via the Internet, when possible
12 and appropriate, and (c) generally having only those attorneys primarily responsible for
13 particular matters attend hearings or other proceedings. Because the Committee has been able to
14 rely on Milbank's breadth of expertise in lieu of employing multiple law firms with different
15 skill sets, more than one Milbank partner may attend Committee, Subcommittee, Working Group
16 or other meetings where that partner's expertise or knowledge base provides an important
17 underpinning to the negotiation or deliberation process.

18 **B. Summary of Milbank's Billing Procedures.**

19
20 In the ordinary course of its practice, Milbank maintains records of time expended
21 by attorneys, law clerks, legal assistants, and case clerks in rendering services to its clients,
22 including the Committee. Time records are made substantially contemporaneously with the
23 rendition of these professional services and are prepared by the attorneys, law clerks, legal
24 assistants, and case clerks who have rendered the services. Milbank attempts to minimize its
25 charges by generally having only those attorneys primarily responsible for particular matters
26 attend hearings or participate in Subcommittee or Plan Working Group meetings and conference
27 calls. In matters such as this representation, time records are kept in six minute (.1 hour)
28 increments. With regard to intra-office conferences, at times no attorney, or a single attorney,

1 may bill for the conference. It is impossible to state with precision how much time has not been
2 recorded by Milbank's professionals as a result of this practice.

3 In view of the implications for the citizens of California of the California energy
4 crisis in general and the Case in particular, at the outset of this engagement, and without request
5 or demand by any party, Milbank voluntarily elected to reduce the hourly rates of its most senior
6 attorneys to \$595, a reduction of up to \$80 per hour from the rates normally charged by these
7 attorneys. Additionally, in reviewing its monthly pre-bills before submission to the U.S. Trustee
8 and PG&E, Milbank voluntarily elected not to bill for certain time recorded by various attorneys,
9 law clerks, paralegals, legal assistants and case clerks relating, among other things, to duplicative
10 attendance at hearings, certain monitoring of regulatory hearings and proceedings, document
11 retrieval and file organization. These rate and billing reductions during the First Interim Period
12 total \$73,123.75. Additionally, in order to comply with the UST Guidelines and the Court
13 Guidelines, Milbank either has not sought or has reduced its request for reimbursement of
14 expenses in the total amount of \$36,169.09. Accordingly, Milbank has reduced the fees and
15 costs it normally would charge during the First Application Period by almost \$110,000.

16
17 **C. Summary Of Exhibits Regarding Services Rendered By Milbank.**

18 Attached as Exhibit "1" to the concurrently-filed Declaration of Robert Jay Moore
19 ("Moore Declaration") is a summary of the total hours expended and total fees incurred by each
20 Milbank professional, as well as a categorical summary of expenses incurred, during the First
21 Application Period.

22 Pursuant to its normal practice when representing committees, Milbank has
23 broken down its services rendered into the separate and distinct activity code categories. A
24 summary of each category of services, setting forth the name of each professional who expended
25 time in that category and the total hours and amount billed by each professional in that category
26 during the First Application Period, is attached to the Moore Declaration as Exhibit "2."
27

1 The detailed Billing Reports for each activity code category are filed concurrently
2 herewith. The Billing Reports set forth a chronological, detailed description of the services
3 rendered by Milbank professionals on behalf of the Committee during the First Application
4 Period for each of the activity code categories described below.

5 Attached to the Moore Declaration as Exhibit "3" are biographies of each
6 Milbank paralegal and legal assistant who provided services to the Committee during the First
7 Application Period.

8
9 A chart listing the hourly billing rates in effect throughout the First Application
10 Period for Milbank professionals who rendered services to the Committee during the First
11 Application Period is attached to the Moore Declaration as Exhibit "4." Except as otherwise
12 noted, these hourly billing rates are the rates regularly charged to clients of Milbank for similar
13 services rendered during the same time period.

14 **D. Narrative Summary Of Services Provided By Milbank.**

15
16 **1. Asset Analysis and Recovery (Category 01).**

17 Milbank investigated the validity of the liens held by PG&E's secured creditors.
18 In particular, Milbank reviewed and analyzed first mortgage bond documents, other mortgages,
19 indentures and security agreements, supplemental indentures and amendments, UCC and real
20 estate records and public filings to evaluate the scope, creation, validity, and perfection of
21 purported liens in favor of secured creditors of PG&E, and prepared and distributed to
22 Committee members and advisors related memoranda and reports. Milbank is continuing this
23 due diligence process to determine whether avoidance actions may be appropriate.

24 Milbank's work in this category also included:

25
26 (a) Analysis of PG&E's assets and financial modeling related thereto; and

27
28 (b) Analysis of CPUC and FERC jurisdiction over PG&E's assets.

1 Milbank also engaged in preliminary analysis of related party transactions,
2 including transfers to the Debtor's sole shareholder parent. However, the Committee has
3 refrained at this time from expending further or extensive efforts in this regard at the expense of
4 the estate for the following reasons, among others: (a) multiple investigations of these
5 transactions are being conducted by, among others, the California Attorney General and the
6 Securities Exchange Commission, and are the subject of matters pending before other agencies
7 and fora; and (b) the Debtor has made consistent, firm and public assertions and
8 acknowledgments of its solvency and intent to satisfy the claims of unsecured creditors in full.

9 During the First Application Period, Milbank professionals spent a total of 101.00
10 hours rendering services in this category, for which Milbank seeks compensation of \$24,153.00.
11 A summary of the Milbank professionals who rendered services in this category and the
12 corresponding amount of fees requested is included in Exhibit "2." The Billing Record for this
13 category, which sets forth a detailed description of the services rendered, is filed concurrently
14 herewith.

15
16 **2. Asset Disposition/Executory Contracts (Category 02).**

17 Milbank's work in this category included review, analysis, response where
18 appropriate, and appearance at hearings where appropriate in connection with various executory
19 contract matters, including assumption of a nuclear disposal contract, PG&E's contract with
20 Puget Sound Energy, stipulation with Berry Petroleum, stipulation with Sempra, assumption of
21 the WES contract, assumption of the BTM contract, assumption of the Western Oilfield contract,
22 stipulation with Solano, assumption of hydro contracts, assumption of real property leases,
23 assumption of franchise agreements, and assumption of a nuclear electric insurance policy.

24
25 Milbank's work in this category also included some work on QF issues described
26 more particularly in Section III.D.10. (Category 10) below.

1 During the First Application Period, Milbank professionals spent a total of 100.60
2 hours rendering services in this category, for which Milbank seeks compensation of \$41,772.00.
3 A summary of the Milbank professionals who rendered services in this category and the
4 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
5 category, which sets forth a detailed description of the services rendered, is filed concurrently
6 herewith.

7 **3. Business Operations (Category 03).**

8
9 Milbank's work in this category included services in the following general areas
10 of focus:

11 (a) *QF Orders*—Review and analysis, monitoring (primarily via the Internet),
12 and preparation of updates regarding (i) legislative hearings regarding SB-47 X, (ii) negotiations
13 between utilities and QFs regarding amendments to PPAs, (iii) CPUC draft decisions regarding
14 adoption of QF amendments and CPUC proceedings where decisions were adopted, and
15 (iv) Bankruptcy Court filings regarding QF payment of arrears and amendments to PPAs.

16
17 (b) *Utility Servicing Agreements*—Review and analysis of (i) proposed
18 servicing agreements between CDWR and Edison and San Diego Gas & Electric Co.
19 ("SDG&E"), (ii) CDWR's servicing agreement with PG&E, (iii) CPUC draft orders adopting
20 servicing agreements, (iv) PG&E arguments made in connection therewith, and (v) the orders
21 adopting servicing agreements.

22 (c) *CDWR Revenue Bonds*—Monitoring (primarily via the Internet) and
23 preparation of updates regarding (i) the Governor's conference calls and the State Treasurer's
24 press conferences regarding State issuance of bonds, and (ii) legislative hearings regarding bond
25 issuance.

26
27 (d) *CDWR Contracts*—Review and analysis of CDWR contracts with
28 generators.

1 (e) *Edison MOU*—Review and analysis, monitoring (primarily via the
2 Internet), and preparation of summaries regarding (i) the Edison MOU, (ii) legislative hearings
3 regarding implementation of the MOU, and (iii) hearings regarding SB-78 XX before the
4 Assembly Energy, Utilities and Communications Subcommittee, the Assembly Appropriations
5 Committee, the Assembly floor, and (iv) legislative amendments.

6 (f) *SDG&E MOU*—Review and analysis of SDG&E MOU, and attendance at
7 the oral argument in San Diego regarding the MOU.

8
9 (g) *CEC Siting*—Analysis of California Energy Commission fast-track siting
10 process, and preparation of summary of fast-track proceedings.

11 (h) *Direct Access*—Monitoring of legislative hearings regarding SB-27 XX,
12 and review and analysis of draft decisions suspending direct access and the parties' comments
13 thereon.

14
15 (i) *CPA*—Review and analysis of SB-6 X, which established the California
16 Power Authority (the "CPA"), and CPA's draft term sheet for asset purchases.

17 (j) *Analysis of Filed Rate Doctrine and Other Issues Relevant to PG&E*
18 *Plan*—Extensive research and analysis of arguments regarding the Filed Rate Doctrine and the
19 Pike County exception to the Doctrine, and preparation of memoranda regarding these issues
20 based on pertinent case law and analysis of voluminous pleadings filed in the PG&E proceeding.
21 Research, analysis, preparation of memoranda and participation in conference calls regarding
22 other issues, including PG&E's provider of last resort obligation, FERC approval for transfer of
23 facilities and issuance of securities, and FERC precedent regarding rate approval issues.

24
25 (k) *U.S. Congressional Matters*—Review and analysis of key Congressional
26 documents related to energy policy reform generally, and any proposed legislative provisions
27 aimed specifically at addressing the California energy crisis, including, but not limited to,
28 proposals on price mitigation and provisions of the "Barton Bill" (H.R. 1647) regarding

1 suspension of QF contracts. Discussions with congressional staff regarding pertinent legislation,
2 as well as Congressional floor and committee schedules for considering same. Attendance in
3 person or monitoring via computer audio/video feed Congressional committee and floor debates
4 on energy legislation, including attending the House Energy and Commerce Subcommittee on
5 Energy and Air Quality mark up of H.R. 1647, and committee/floor consideration of H.R. 4,
6 energy policy reform legislation. Preparation of numerous memoranda and reports on
7 Congressional action regarding legislation, and participation in conference calls to report on
8 federal legislative activities that would impact the California energy markets.

9 (l) *Trading Orders*—Efforts to seek approval of the securities and
10 commodities trading orders for the benefit of the Committee and certain of its members,
11 including extensive research and preparation of pleadings seeking approval of the orders, review
12 and analysis of objections, negotiations with objecting parties, extensive revisions to orders,
13 coordination with affected Committee members and their counsel in development of additional
14 evidence and argument, and attendance at several hearings.

15 (m) *Motions Related to Business Operations*—Extensive review, analysis,
16 negotiation with PG&E management and counsel, and consultation and deliberation with the
17 Committee in connection with motions related to PG&E's business operations, including
18 motions to approve certain ordinary course procedures for payment of capital expenditures and
19 approval of settlements with third parties.
20

21 Milbank's work in this category also included some work on QF issues described
22 more particularly in Section III.D.10. (Category 10) below.
23

24 During the First Application Period, Milbank professionals spent a total of
25 1,314.75 hours rendering services in this category, for which Milbank seeks compensation of
26 \$489,132.35. A summary of the Milbank professionals who rendered services in this category
27 and the corresponding amount of fees requested is included in Exhibit "2." The Billing Report
28

1 for this category, which sets forth a detailed description of the services rendered, is filed
2 concurrently herewith.

3 **4. Case Administration/U.S. Trustee Compliance (Category 04).**

4
5 Services rendered by Milbank professionals in this category included:

6 (a) Drafting of internal committee documents, such as Confidentiality
7 Agreements and Committee Bylaws, including participation in internal Committee deliberations
8 regarding those governance documents and, with respect to the Confidentiality Agreements,
9 negotiations with PG&E and its counsel.

10
11 (b) General review of incoming pleadings, calendaring, organization of
12 pleadings, and coordination of coverage for hearings and discovery matters.

13 (c) Response to a voluminous number of creditor inquiries regarding the
14 status of and developments in the Case, and creditor claims and treatment.

15
16 (d) Services rendered in connection with Committee, Subcommittee, and
17 Working Group composition issues, and liaison with the U.S. Trustee regarding those matters.

18 (e) Analysis of, and participation in internal Committee deliberations and
19 discussions with interested parties regarding, proceedings in connection with the proposed
20 Ratepayers Committee, including analysis of PG&E's objection to the appointment of a
21 ratepayers committee, preparation of a joinder therein, participation at the hearing thereon,
22 analysis of the U.S. Trustee's motion for reconsideration, preparation of a response thereto, and
23 participation at a hearing thereon.

24
25 (f) Response to press inquiries and coordination of general public relations
26 issues.

1 (g) Preparation of updates to Committee members regarding the Case and
2 developments before the FERC, the CPUC and the California Legislature.

3 (h) Services rendered by Milbank's PG&E Case Clerk, who is in charge of
4 Milbank and Committee document control, consisting of scanning, indexing, filing, and
5 electronic dissemination of pleadings. Charges for services rendered by the PG&E Case Clerk
6 total \$34,480. Milbank believes that in a case of this size, a case clerk dedicated to document
7 control is essential to enable Milbank to systematically review and timely respond to the
8 voluminous incoming pleadings and creditor and Committee member inquiries. Moreover,
9 electronic dissemination of pleadings saves thousands of dollars in copying costs.

10
11 During the First Application Period, Milbank professionals spent a total of 839.20
12 hours rendering services in this category, for which Milbank seeks compensation of \$263,075.00.
13 A summary of the Milbank professionals who rendered services in this category and the
14 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
15 category, which sets forth a detailed description of the services rendered, is filed concurrently
16 herewith.

17 **5. Claims Administration and Objections (Category 05).**

18
19 Milbank reviewed and analyzed claims, and aided various creditors with inquiries
20 regarding particular claims. The Committee also provided input in connection with the claims
21 bar date process to ensure that appropriate bar dates were established.

22 Specific services rendered by Milbank professionals in this category included:

23
24 (a) Review of pleadings and notices and input regarding general claims bar
25 date procedures and notices.

26 (b) Review of pleadings and notices and input regarding administrative claims
27 bar date procedures and notices.

1 (c) Correspondence and conferences with the Committee and various
2 creditors regarding claims issue.

3 During the First Application Period, Milbank professionals spent a total of 14.20
4 hours rendering services in this category, for which Milbank seeks compensation of \$7,831.00.
5 A summary of the Milbank professionals who rendered services in this category and the
6 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
7 category, which sets forth a detailed description of the services rendered, is filed concurrently
8 herewith.

9
10 **6. Employee Benefits/Pensions (Category 06).**

11 The proper treatment of employees during the sensitive period of a company's
12 bankruptcy filing often plays a critical role in a successful reorganization. Since a large number
13 of PG&E's employees are union members, the Committee believed that it was appropriate for
14 PG&E to provide certainty to these employees by assuming the Collective Bargaining
15 Agreements (the "CBAs") at an early point in the Case. Milbank oversaw and provided input
16 into this process to insure prompt and fair assumption of the CBAs, and negotiated with union
17 representatives regarding the interplay between the assumption of the CBAs and PG&E's global
18 motions regarding approval of compromises and related matters in the ordinary course of its
19 business. The Committee also believed it to be appropriate to support, subject to certain
20 negotiated modifications, PG&E's motion seeking approval for certain key employee retention
21 programs. Milbank provided significant input into the process, altering the proposed incentives
22 to coincide with, and be contingent upon, key milestones in the bankruptcy case, such as filing
23 and confirmation of a successful plan of reorganization.

24
25 Specific services rendered by Milbank professionals in this category included:
26
27
28

1 (a) Services performed in connection with PG&E's motion to assume the
2 CBAs, including review of pleadings, objections thereto, analysis of the positions of various
3 constituencies, and formulation of a response.

4 (b) Services performed in connection with PG&E's motion regarding
5 employee retention programs, including review of pleadings, objections thereto, analysis of the
6 positions of various constituencies, and formulation of a response.

7
8 During the First Application period, Milbank professionals spent a total of 24.70
9 hours rendering services in this category, for which Milbank seeks compensation of \$12,378.00.
10 A summary of the Milbank professionals who rendered services in this category and the
11 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
12 category, which sets forth a detailed description of the services rendered, is filed concurrently
13 herewith.

14 **7. Fee/Employment Applications (Category 07).**

15
16 In a case of this size, compliance with employment and fee requirements of the
17 U.S. Trustee and the Bankruptcy Court is time consuming. To fulfill its functions, the
18 Committee was required to employ various professionals, including attorneys, accountants and
19 financial advisors, investment bankers, and forward price curve consultants. An application to
20 approve the employment of legislative consultants will be forthcoming. The hiring and timely
21 compensation of these professionals is essential to enable the Committee to fulfill its statutory
22 obligations in this Case.

23 Specific services rendered by Milbank professionals in this category included:

24
25 (a) Drafting the Milbank employment application and obtaining an order
26 thereon.

1 (b) Review of monthly pre-bills for redaction of time entries and reduction or
2 elimination of time entries and charges, where appropriate, as well as drafting the Milbank
3 monthly cover sheet applications and the interim fee application.

4 (c) The professionals in the Case agreed—and the U.S. Trustee concurred—
5 that due to the large size of this case, procedures providing monthly payment to professionals
6 were appropriate. At the request of PG&E’s counsel, Milbank drafted the motion to establish
7 these payment procedures (the “Knudsen Motion”). Milbank appeared at the hearing on the
8 Knudsen Motion and worked with PG&E’s counsel and the U.S. Trustee to finalize an order
9 governing these procedures.

10 (d) Review of employment and fee applications of the Committee’s financial
11 advisors, PricewaterhouseCoopers LLP, and the Committee’s investment banker, Saybrook
12 Capital, LLC.

13 (e) The Committee determined that it needed a public relations firm to assist it
14 in efficiently and effectively carrying out its duties in this very public Case. Milbank drafted the
15 Rogers & Associates employment application, responded to objections thereto, and participated
16 in the hearing thereon. Ultimately, the Court denied the employment, and Rogers & Associates’
17 significant billings remain unpaid.

18 (f) The Committee and its financial advisors determined that they required
19 energy forward price curve forecasts to enable the Committee to evaluate any plan of
20 reorganization proposed by PG&E and to develop the Committee’s own internal models.
21 Milbank drafted the LCG Consulting employment application and obtained an order thereon.

22 (g) The Committee also determined that it required legislative consultants to
23 enable the Committee to properly evaluate any plan proposed by PG&E, as well as alternative
24 restructuring options. Milbank drafted the Public Policy Advocates employment application,
25 which will be filed shortly.

1 (h) Advice to various Committee professionals regarding employment and fee
2 applications.

3 (i) Drafting of monthly Committee member expense reimbursement
4 applications.
5

6 During the First Application Period, Milbank professionals spent a total of 164.00
7 hours rendering services in this category, for which Milbank seeks compensation of \$64,542.50.
8 A summary of the Milbank professionals who rendered services in this category and the
9 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
10 category, which sets forth a detailed description of the services rendered, is filed concurrently
11 herewith.

12 **8. Fee/Employment Objections (Category 08).**
13

14 Like the Committee, PG&E has hired, and sought compensation for, numerous
15 professionals. Milbank has closely tracked these requests, as well as any objections thereto, to
16 ensure that PG&E's professionals have no adverse interests to the estate and are compensated in
17 a reasonable manner.

18 Specific services rendered by Milbank professionals in this category included:
19

20 (a) Review of various employment applications filed by PG&E's
21 professionals and objections thereto, including the employment of PG&E's (i) legal
22 professionals; (ii) accountants; (iii) financial advisors; and (iv) various litigation and special
23 counsel.

24 (b) Extensive negotiations with PG&E and Dresdner Kleinwort Wasserstein,
25 Inc. ("DrKW") regarding the proposed \$20 million "success fee" sought to be approved by
26 PG&E and DrKW, which resulted in the parties agreeing that any success fee would be based on
27 merit, and not paid automatically.
28

1 (c) Review and resolution of objections to employment of Committee
2 professionals.

3 During the First Application Period, Milbank professionals spent a total of 53.50
4 hours rendering services in this category, for which Milbank seeks compensation of \$25,318.00.
5 A summary of the Milbank professionals who rendered services in this category and the
6 corresponding amount of fees requested is included in Exhibit "2." The Billing
7 Report for this category, which sets forth a detailed description of the services rendered, is filed
8 concurrently herewith.

9
10 **9. Financing—Cash Collateral (Category 09).**

11 Certain cash in PG&E's possession is subject to security interests in favor of
12 certain of PG&E's creditors, such as mortgage bondholders and gas suppliers. At the
13 commencement of the case, PG&E requested that the Court allow it to use cash collateral of
14 these creditors, subject to certain limitations. Milbank provided input into this process to ensure
15 that PG&E had access to cash, subject to reasonable restrictions, and the Committee had a
16 reasonable opportunity to review and evaluate such creditors' claims, liens and security interests.

17
18 Specific services rendered by Milbank in this category included:

19 (a) Review and analysis of various financing options for PG&E.

20
21 (b) Review, analysis, response, and participation at interim and final hearings
22 on PG&E's motion for interim and final orders regarding use of Mortgage Bondholders' cash
23 collateral.

24 (c) Review, analysis, response, and participation at the hearing on PG&E's
25 motion regarding use of Gas Suppliers' cash collateral.

26
27 During the First Application Period, Milbank professionals spent a total of 21.30
28 hours rendering services in this category, for which Milbank seeks compensation of \$10,991.50.

1 A summary of the Milbank professionals who rendered services in this category and the
2 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
3 category, which set forth a detailed description of the services rendered, is filed concurrently
4 herewith.

5 **10. Stay Litigation (Category 10).**

6
7 QFs provide approximately 22% of PG&E's energy needs. The relationship
8 between the QFs and PG&E is governed by a series of long-term power purchase agreements
9 ("PPAs"). The PPAs are executory contracts that PG&E must assume or reject at or prior to plan
10 confirmation. PG&E owed approximately \$1 billion in prepetition debt to the QFs. Resolution
11 of the QF issues was critical not only to PG&E's reorganization, but also to California power
12 consumers in general.

13 At the commencement of the case, numerous QFs filed motions for relief from the
14 automatic stay or, alternatively, to compel PG&E to assume or reject the PPAs and for adequate
15 protection payments. The QF issues posed significant responsibilities on the Committee, which
16 included QF members, but which had to maintain its focus on the interests of the Debtor's
17 unsecured creditors, generally. Milbank and the Committee's financial advisors were integrally
18 involved in the QF proceedings, actively participating in the litigation, including discovery
19 proceedings and presentation of expert testimony to the Court involving detailed financial
20 analysis of the QF issues, and in developing settlement structures and participating in settlement
21 negotiations. Ultimately, the Court entered an order denying the QFs motions, but granting
22 hardship payments upon appropriate showing.

23
24 The QF issue extended beyond the parameters of the Bankruptcy Court, involving
25 the CPUC. To properly analyze and resolve the QF issues, Milbank actively monitored and
26 analyzed past and present CPUC proceedings and decisions handed down by the CPUC, such as
27 the Wood decision.

1 Milbank and the Committee's financial advisors also were integrally involved in
2 settlement negotiations between PG&E and the QFs. As a result of those efforts, two settlement
3 models were developed that served as the basis for settlements with the majority of the QFs. The
4 settlement models provide for prompt assumption of the QF contracts, typically subject to long-
5 term fixed price provisions, with delayed payment of the \$1 billion in prepetition arrearages
6 either at plan confirmation, the plan effective date, or commencing during the summer of 2003.
7 These settlement models achieve three key objectives. First, assumption of the QF contracts
8 provides greater assurance that all available power is on line for consumption by California
9 consumers. Second, amendment of the PPAs to provide for long-term fixed prices mitigates
10 against price volatility and facilitates more predictable cash flow forecasts that enhance plan
11 negotiations. Third, deferring \$1 billion in cure payments into the future enhances PG&E's
12 prospects for successful reorganization.

13 The QF issues have been one of the central issues early in this Case. Milbank's
14 work in connection with the QF situation, in conjunction with the significant efforts of the
15 Debtor's insolvency counsel, has helped yield settlements in the vast majority of the QF
16 litigation, while at the same time ensuring that QFs continue to provide power to PG&E.

17 In addition to the QF issues, Milbank's work in this category included:

18 (a) Review and analysis of pleadings and participation in the Puget Sound
19 Energy proceeding;

20 (b) Review and analysis of pleadings and participation in numerous other
21 relief from stay proceedings, including those brought by: (1) Tosco; (2) Polletti; (3) Pacific
22 Lumber Co.; (4) Solano; (5) Sempra; (6) Cal Fed; (7) U.S. Bank; and (8) Jackson.

23 During the First Application Period, Milbank professionals spent a total of 482.90
24 hours rendering services in this category, for which Milbank seeks compensation of \$237,503.50.
25 A summary of the Milbank professionals who rendered services in this category and the
26
27
28

1 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
2 category, which sets forth a detailed description of the services rendered are filed concurrently
3 herewith.

4 **11. Other Litigation (Category 12).**

5
6 This category includes Milbank's work in connection with the FERC, the CPUC,
7 adversary proceedings in the Bankruptcy Court, and non-Bankruptcy Court litigation, including:

8 **Non-Bankruptcy Court Proceedings**

9
10 (a) *CPUC and Legislative Calendars*—Review and analysis, monitoring
11 (primarily via the Internet), and preparation of updates (frequently on a daily basis) and
12 summaries regarding (i) the daily calendar issued by the CPUC, (ii) the California Legislature's
13 website for schedule of hearings, (iii) bills pending before the Legislature, (iv) proceedings
14 pending before the CPUC, and (v) significant court cases.

15 (b) *Rate Stabilization Proceedings*—Review and analysis, monitoring
16 (primarily via the Internet), and preparation of updates and summaries regarding (i) hearings
17 related to and analysis of AB-1 X, (ii) transcripts, (iii) rate orders related to PG&E, (iv) CPUC
18 meetings where rate orders were approved, (v) briefs and reply briefs filed by PG&E and other
19 interested parties, including requests for rehearing and PG&E's appeal to the California Supreme
20 Court, (vi) the draft order and the parties' briefs on rate allocation, (vii) PG&E's briefs and a
21 final order allocating rate increase, and (viii) the draft decision adopting rate increase for
22 customers of SDG&E. Among other things, Milbank professionals attended ten (10) days of
23 hearings at the CPUC on behalf of the Committee.

24
25 (c) *URG Revenue Requirements*—Attendance at ten (10) days of hearings at
26 the CPUC on behalf of the Committee, and review and analysis, monitoring (primarily via the
27 Internet), and preparation of updates and summaries regarding (i) transcripts and rate orders

1 related to PG&E, (ii) CPUC meetings where rate orders were approved, and (iii) briefs and reply
2 briefs filed by PG&E and other interested parties.

3 (d) *CDWR Revenue Requirements*—Review and analysis, monitoring
4 (primarily via the Internet), and preparation of updates and summaries regarding (i) rate requests
5 and amended rate requests filed by CDWR, (ii) PG&E's and other parties' comments on the
6 CDWR Revenue Requirements, (iii) attendance at a public workshop at the CPUC, (iv) the
7 Governor's press conference related to CDWR Revenue Requirements, and (v) legislative
8 hearings regarding SB-31 X and SB-18 XX.

9
10 (e) *CDWR Rate Agreement*—Review and analysis, monitoring (primarily via
11 the Internet), and preparation of updates and summaries regarding (i) the Rate Agreement
12 between the CPUC and CDWR, the Draft Decision and the Order approving the Rate
13 Agreement, (ii) PG&E's and other parties' comments on the draft order approving the Rate
14 Agreement, and (iii) PG&E's appeal to Sacramento Superior Court.

15 (f) *Holding Company OII*—Review and analysis, monitoring (primarily via
16 the Internet), and preparation of updates and summaries regarding (i) the Order Instituting
17 Investigation issued by the CPUC, (ii) the pre-hearing conference at the CPUC, (iii) the motions
18 to dismiss filed by utility holding companies, (iv) data submitted by holding companies pursuant
19 to data requests, (v) the draft order rejecting the motions to dismiss, (vi) CPUC Orders
20 establishing conditions for the holding companies, and (vii) the complaint filed at the SEC by the
21 California Attorney General against PG&E.

22
23 (g) *Filed Rate Doctrine*—Attendance at a Superior Court hearing, and review
24 and analysis and preparation of summaries of complaints filed by PG&E and Edison, the order
25 dismissing the PG&E complaint, and the complaint re-filed by PG&E.

26 (h) *Shareholder Complaints*—Review and analysis and prepare summary of
27 shareholder complaints filed against PG&E and Edison.

28

1 (i) *Ratepayer Advocate Complaints*—Review and analysis and prepare
2 summary of ratepayer advocate complaints filed against wholesale generators and marketers and
3 ratepayer advocate complaints filed against El Paso Natural Gas Pipeline Company.

4 (j) *SEC filings*—Review and analysis of 8-Ks and 10-Qs filed by PCG and
5 EIX.

6
7 (k) *California Credit Issues*—Extensive research, review, and analysis
8 pertaining to the resolution of creditworthiness and payment issues before the FERC, including
9 review and analysis of pleadings, FERC precedent, and pertinent contracts, protocols and the
10 FERC-filed tariff. Monitoring of FERC meetings and preparation of memoranda regarding
11 analysis of their possible impact on the Case. Preparation of pleadings at the FERC on behalf of
12 the Committee regarding credit issues, and participation in conference calls regarding these
13 issues.

14 (l) *California Refund and Market Mitigation Proceedings*—Extensive
15 research, review, and analysis with respect to FERC proceedings on refunds and implementation
16 of other remedies regarding wholesale power sales in California. Monitoring of FERC
17 proceedings and appellate proceedings concerning market-based rates for wholesale sales in
18 California, and preparation of memoranda and reports to the Committee regarding these issues,
19 including analysis of possible impact on the Case. Attendance at and monitoring of FERC
20 settlement discussions regarding refunds for wholesale power sales in California, and
21 participation in conference calls regarding these issues.

22
23 **Bankruptcy Court Proceedings**

24 Milbank participated in the following two significant adversary proceedings
25 commenced by PG&E before the Bankruptcy Court:

26
27 (a) *TURN Accounting*—Milbank actively participated in PG&E's adversary
28 proceeding challenging the CPUC's TURN accounting order relating to an accounting procedure

1 which, in PG&E's view, improperly precluded it from raising its rates. Milbank, on behalf of the
2 Committee, prepared intervention papers, supported PG&E's position, and consulted with
3 PG&E's counsel regarding its attempt to obtain a preliminary injunction overturning the CPUC
4 order.

5 (b) *California ISO*—Milbank actively participated in PG&E's adversary
6 proceeding against the California Independent System Operator (the "ISO") seeking to preclude
7 the ISO from purchasing power on PG&E's behalf unless the CDWR was the party obligated to
8 pay for such power. Again, Milbank, on behalf of the Committee, prepared papers seeking
9 intervention in the proceeding, which were granted. The Committee supported PG&E's position
10 seeking a preliminary injunction and consulted with PG&E's counsel on strategic issues and in
11 the preparation of the consent order that resulted from the proceeding. Milbank has continued to
12 monitor discovery disputes and consult with PG&E's counsel regarding discovery and other
13 issues in the proceeding, and has appeared at status conferences in the matter.

14
15 Milbank's work in this category also included some work on QF issues described
16 more particularly in Section III.D.10. (Category 10) above.

17 During the First Application Period, Milbank professionals spent a total of
18 1,117.45 hours rendering services in this category, for which Milbank seeks compensation of
19 \$477,726.25. A summary of the Milbank professionals who rendered services in this category
20 and the corresponding amount of fees requested is included in Exhibit "2." The Billing Report
21 for this category, which sets forth a detailed description of the services rendered, is filed
22 concurrently herewith.

23 24 **12. Meeting of Creditors (Category 13).**

25 The frequently unique and often complex political, regulatory, legal, financial,
26 and public purpose aspects of the Case and PG&E's business operations, the implications and
27 urgency associated with finding a solution to the energy crisis generally affecting the State of
28

1 California and the investor owned utilities in the State, the enormous amount of pre-Petition Date
2 indebtedness owed by PG&E, and the financial and regulatory challenges inherent in addressing
3 PG&E's ongoing cash flow needs and the satisfaction and financing of the net open position, all
4 contributed to the intense urgency with which both the Debtor and the Committee members
5 sought to address their responsibilities in the Case during the First Application Period. Indeed,
6 the institutions from which the eleven (11) Committee members were drawn collectively hold or
7 represent the interests of billions of dollars of pre-Petition Date debt, and have devoted enormous
8 resources to fulfill their responsibilities to unsecured creditors in the Case.

9
10 It thus should come as no surprise that Committee members and their outside
11 counsel and advisors, Milbank and the Committee's other professionals have devoted an
12 extraordinary amount of time in preparing for and attending meetings of the full Committee, the
13 Litigation Subcommittee, the Finance Subcommittee, the Legislative and Regulatory
14 Subcommittee, and the Plan Working Group. Such meetings occurred on virtually a daily basis
15 by telephone conference call and on a less frequent, but often weekly, basis in person. Face-to-
16 face meetings typically were in San Francisco to facilitate in-person dialogue with PG&E's
17 senior management and the counsel and advisors to PG&E and at times its parent. Such
18 meetings often were conducted at the request of PG&E. These meetings mark the heart of a
19 well-functioning and meaningful Committee process.

20 Services rendered by Milbank professionals in this category included:

21 (a) Preparation for and attendance at the first meeting of creditors conducted
22 by the U.S. Trustee pursuant to 11 U.S.C. § 341(a).

23
24 (b) Preparation for and attendance at numerous meetings of the full
25 Committee, the Litigation Subcommittee, the Finance Subcommittee, the Legislative and
26 Regulatory Subcommittee, and the Plan Working Group, at times involving in-person or
27 telephonic participation by the senior management of PG&E, its parent PG&E Corp., and the
28

1 numerous bankruptcy, regulatory and other counsel and financial advisors and investment
2 bankers of each of them.

3 (c) Preparation for and attendance at numerous meetings, frequently by
4 telephone conference call, among Committee, Subcommittee and Working Group members and
5 PG&E regarding general case administration and Plan issues.

6 (d) Preparation for and attendance at numerous meetings, frequently by
7 telephone conference call, among Committee, Subcommittee and Working Group members and
8 PG&E, regarding various motions brought by PG&E.

9
10 During the First Application Period, Milbank professionals spent a total of 516.30
11 hours rendering services in this category, for which Milbank seeks compensation of \$280,967.50.
12 A summary of the Milbank professionals who rendered services in this category and the
13 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
14 category, which sets forth a detailed description of the services rendered is filed concurrently
15 herewith.

16
17 **13. Plan and Disclosure Statement (Category 14).**

18 One of the key functions of a committee is to provide input on a debtor's plan of
19 reorganization, and if agreement cannot be reached to object to the debtor's plan and propose an
20 alternative plan. Since an early point in the First Application Period, the Committee has been
21 engaged in intensive and continuous discussions with PG&E regarding plan issues. A Plan
22 Working Group, consisting of a smaller representative subset of five (5) of the Committee's
23 eleven (11) members, was formed to facilitate the plan analysis and formulation process.
24 Weekly, and at times more frequent, in-person meetings have been held between the full
25 Committee, the Plan Working Group or individual Committee members, on the one hand, and
26 representatives of PG&E and at times its parent, on the other hand, to discuss various plan issues.
27 Milbank professionals have been actively involved in shaping and orchestrating this plan
28

1 dialogue and coordinating with the Committee's financial advisors and investment bankers.
2 These discussions have intensified as the plan process has become more mature.

3 Services rendered by Milbank professionals in this category included:

4
5 (a) Numerous meetings involving the Committee or the Plan Working Group
6 and the Committee's professionals, on the one hand, and PG&E and its sole shareholder parent
7 corporation, and their respective counsel, accountants, financial advisors, investment bankers,
8 and other advisors, on the other hand, regarding plan and disclosure statement issues.

9 (b) Extensive research and analysis of plan issues.

10
11 (c) Formulation of plan principles.

12 (d) Extensive plan feasibility analysis.

13
14 (e) Extensive negotiations with PG&E with regard to treatment of creditors
15 under the plan.

16 During the First Application Period, Milbank professionals spent a total of 297.60
17 hours rendering services in this category, for which Milbank seeks compensation of \$161,116.50.
18 A summary of the Milbank professionals who rendered services in this category and the
19 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
20 category, which sets forth a detailed description of the services rendered, is filed concurrently
21 herewith.

22
23 **14. Business Analysis (Category 16).**

24 Services rendered by Milbank professionals listed in this category included:

25
26 (a) Monitoring, review, analysis, and reports to the Committee regarding
27 proposed energy legislation, including numerous proposed legislative bills regarding Edison.

1 (b) Monitoring, review, analysis and reports to the Committee regarding
2 CPUC and FERC developments, including decisions of the CPUC regarding the proposed
3 servicing agreement and Filed Rate Doctrine issues.

4 (c) Monitoring, review, analysis and reports to the Committee regarding
5 California legislative and U.S. Congressional hearings on energy legislation, including SB-47X,
6 SB-27XX, and HR 1647.

7
8 (d) Analysis of the CDWR Contracts and Revenue Bond issues.¹

9 During the First Application Period, Milbank professionals spent a total of 219.10
10 hours rendering services in this category, for which Milbank seeks compensation of \$66,580.50.
11 A summary of the Milbank professionals who rendered services in this category and the
12 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
13 category, which sets forth a detailed description of the services rendered, is filed concurrently
14 herewith.

15
16 **15. Data Analysis (Category 18).**

17 Services rendered by Milbank professionals listed in this category included
18 review of data provided by PG&E regarding CDWR Revenue Requirement issues and cash flow
19 forecasts.²

20
21 During the First Application Period, Milbank professionals spent a total of 5.80
22 hours rendering services in this category, for which Milbank seeks compensation of \$2,610.00.
23 A summary of the Milbank professionals who rendered services in this category and the
24 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this

25
26
27 ¹ For additional details, see descriptions in Section III.D.3 (Category 3) above.

28 ² Note that significant time also was recorded in connection with these issues under the
"Business Analysis" category described in Section III.D.16 (Category 16) above.

1 category, which sets forth a detailed description of the services rendered, is filed concurrently
2 herewith.

3 **16. Litigation Consulting (Category 19).**

4
5 Milbank professionals provided the following services in this category:

6
7 Milbank researched and created memoranda on several issues relating to the
8 Committee's ability to intervene or participate in various types of proceedings, including
9 proceedings before the FERC, the CPUC, and various State and federal court actions in which
10 PG&E is a party. Milbank also obtained and reviewed the underlying complaints in numerous
11 pending non-Bankruptcy Court actions to analyze whether intervention on behalf of the
12 Committee would be appropriate. In addition, Milbank analyzed and prepared memoranda on
13 the ability of PG&E or the Committee to bring actions against various governmental entities, and
14 the procedural and Constitutional issues that would need to be addressed in such actions.

15
16 During the First Application Period, Milbank professionals spent a total of 35.60
17 hours rendering services in this category, for which Milbank seeks compensation of \$13,706.00.
18 A summary of the Milbank professionals who rendered services in this category and the
19 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
20 category, which sets forth a detailed description of the services rendered, is filed concurrently
21 herewith.

22 **17. Tax Issues (Category 21).**

23 Services rendered by Milbank professionals listed in this category included:

24 (a) Research and analysis of tax issues related to confirmation of a plan,
25 including tax structure, issuance of securities, and exchange of indebtedness.

26
27 (b) Conferences with PG&E and its tax professionals regarding tax issues in
28 connection with confirmation of a plan.

1 During the First Application Period, Milbank professionals spent a total of 4.70
2 hours rendering services in this category, for which Milbank seeks compensation of \$2,718.50.
3 A summary of the Milbank professionals who rendered services in this category and the
4 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
5 category, which sets forth a detailed description of the services rendered, is filed concurrently
6 herewith.

7 **18. Non-Working Travel (Category 24).**

8
9 During the First Application Period, Milbank professionals recorded a total of
10 92.0 hours in this category, for which Milbank seeks compensation of \$37,255.00. This time
11 frequently involved travel delays and other necessary travel time that precluded Milbank
12 professionals from providing services to other clients of the firm. A summary of the Milbank
13 professionals who rendered services in this category and the corresponding amount of fees
14 requested is included in Exhibit "2." The Billing Report for this category, which sets forth a
15 detailed description of the services rendered, is filed concurrently herewith.

16 Services rendered by Milbank professionals listed in this category included travel
17 to and from San Francisco for meetings of the Committee and the Plan Working Group, meetings
18 with PG&E and its counsel and other professionals, meetings with the Committee's financial
19 advisor, PricewaterhouseCoopers LLP, and in connection with Court appearances.

20
21 All reasonable efforts were made to appear at Court hearings and at meetings
22 telephonically.

23 **IV.**

24 **SUMMARY OF ACTUAL AND NECESSARY EXPENSES INCURRED BY MILBANK**

25
26 Milbank maintains records of all actual and necessary out-of-pocket expenses
27 incurred and typically charged in connection with rendering professional services to its clients in
28 the ordinary course of its business practice. As is typical of Milbank's practice when

1 representing creditors' committees, Milbank has reduced to cost or not charged certain of these
2 out-of-pocket expenses to the estate in accordance with the UST Guidelines and the Court
3 Guidelines and to ensure the reasonableness of Milbank's fee and expense request. Specifically,
4 Milbank has voluntarily reduced its expenses by a total of \$36,169.09. A brief explanation of
5 certain costs incurred and charged to the estate is set forth below:

6 (a) Milbank charges its clients for photocopying done in-house at the rate of
7 \$0.20 per page; copying done by outside services is charged at cost;

8
9 (b) Milbank charges its clients for document retrieval services, computer
10 research and other specialized searches and services, such as messengers and library retrievals at
11 cost;

12 (c) Milbank charges its clients for mileage (\$0.345 per mile, if sought) and
13 parking costs incurred by its attorneys and legal assistants in connection with services rendered
14 at cost;

15
16 (d) Milbank charges its clients for cab fares or other transportation costs
17 incurred by its attorneys when working on specific client matters at cost;

18 (e) Milbank normally charges its clients for word processing services
19 rendered by a specialized operator and by the secretary assigned to each lawyer. Milbank also
20 charges for the use of its computer system based on the amount of time utilized to prepare
21 documents. In order to comply with the UST Guidelines and the Court Guidelines, however, no
22 such charges are included in this First Interim Application;

23
24 (f) Milbank normally charges its clients for the cost of overtime and weekend
25 meals when pressing client matters require the attorney to work during the meal. In accordance
26 with the UST Guidelines and the Court Guidelines, however, no such charges are included in this
27 First Interim Application;

28

1 (g) In accordance with the UST Guidelines and the Court Guidelines, Milbank
2 is seeking reimbursement for outgoing facsimile transmissions at the rate of \$.20 per page plus
3 actual costs of the connection; and

4 (h) In accordance with the UST Guidelines and the Court Guidelines, Milbank
5 is seeking reimbursement for telephone calls at cost.
6

7 V.

8 **COMPENSATION REQUESTED AND RELEVANT LEGAL STANDARD**

9 To grant a request for compensation pursuant to Bankruptcy Code section 330,
10 the Court must find that such request is reasonable. The reasonableness of a compensation
11 request is determined by the "lodestar" method. See In re Yermakov, 718 F.2d 1465, 1471 (9th
12 Cir. 1983). Under the lodestar approach, "reasonable" compensation is calculated by
13 multiplying the number of hours reasonably expended by the hourly rate of the professional. In
14 re Rheuban, 121 B.R. 368, 383 (Bankr. C.D. Cal. 1990). There is a strong presumption that the
15 lodestar product is reasonable under Bankruptcy Code section 330. See In re Drexel Burnham
16 Lambert Group, Inc., 133 B.R. 13, 22 (Bankr. S.D.N.Y. 1991).

17
18 The reasonableness of a professional's hourly rate is based on the cost for
19 comparable services charged in the area, in non-bankruptcy matters. See In re Yermakov, 718
20 F.2d at 1471. The reasonableness of the hours expended on a task is based on whether the
21 services provided were actual and necessary. See In re Nucorp Energy, Inc., 764 F.2d 655, 658
22 (9th Cir. 1985).

23 Milbank's fees are reasonable given the size and complexity of the bankruptcy
24 case and are commensurate with the fees that Milbank has been awarded in comparable chapter
25 11 cases and that counsel of comparable experience and expertise charge on a regular basis to
26 represent creditor committees in comparable chapter 11 cases. Accordingly, utilizing the
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1 lodestar method, Milbank's fee and expense request is reasonable and should be allowed and
2 paid pursuant to Bankruptcy Code section 330. See Drexel, 133 B.R. at 22.

3
4 **VI.**
5 **CONCLUSION**

6 For the reasons set forth above and pursuant to Bankruptcy Code sections 330 and
7 331, Bankruptcy Rule 2016, the Court Guidelines, the UST Guidelines and the standards adopted
8 by courts in awarding attorneys' fees and costs, Milbank submits that the fees for services
9 rendered and costs and expenses incurred on behalf of the Committee during the First
10 Application Period in the total amount of \$2,368,694.57 are reasonable and should be allowed on
11 an interim basis and paid in full.

12 No agreement or understanding of any kind or nature exists between Milbank and
13 any other person or entity for the sharing, division, or payment of any portion of the
14 compensation awarded to Milbank for services rendered or expenses incurred in connection with
15 Milbank's representation of the Committee in the bankruptcy case, except as among the partners,
16 associates and employees of Miibank.

17
18 **WHEREFORE**, Milbank respectfully requests that this Court enter an order:

- 19 1. Approving this First Interim Application in its entirety;
- 20
21 2. Approving an interim award of compensation in the amount of
22 \$2,219,496.00 for professional services rendered and in the amount of \$149,198.57 as
23 reimbursement of costs and expenses incurred, for a total award of \$2,368,694.57;
- 24 3. Authorizing and directing PG&E to immediately pay to Milbank the
25 allowed amounts, less any such amounts already paid pursuant to the Order Establishing Interim
26 Fee Application and Expense Reimbursement Procedure; and
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4. Granting such other and further relief as the Court deems just and proper.

DATED: September 14, 2001

Respectfully submitted.

MILBANK, TWEED, HADLEY & McCLOY LLP

By: *Robert Jay Moore*
Paul S. Aronson
Robert Jay Moore
Michael I. Sorochinsky

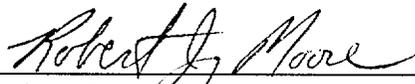
Counsel to Official Committee of Unsecured Creditors

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CERTIFICATION

I, Robert Jay Moore, am the professional designated by Milbank to ensure compliance with the United States Bankruptcy Court Northern District of California Guidelines for Compensation and Expense Reimbursement of Professionals and Trustee ("Court Guidelines"). I certify that (a) I have read the First Interim Application; (b) to the best of my knowledge, information and belief, formed after reasonable inquiry, the compensation and expense reimbursement sought is in conformity with the Court Guidelines, except as specifically noted in the Application; and (c) the compensation and expense reimbursement requested are billed at rates, in accordance with the firm's practice, no less favorable than those customarily employed by Milbank and generally accepted by Milbank's clients.

DATED: September 14, 2001



Robert Jay Moore