

50-245/323

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

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

Case No. 01-30923 DM
Chapter 11 Case
Date: February 26, 2002
Time: 9:30 a.m.
Place: 235 Pine Street, 22nd Floor
San Francisco, CA

19
20 SECOND INTERIM APPLICATION FOR COMPENSATION AND
21 REIMBURSEMENT OF EXPENSES BY COUNSEL FOR
DEBTOR-IN-POSSESSION
22 (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 On September 17, 2001, Howard, Rice filed its First Interim Application for
10 Compensation and Reimbursement of Expenses (the "First Interim Application"), seeking
11 interim approval of fees for services rendered and reimbursement of costs incurred for the
12 period April 6, 2001 through July 31, 2001. This is Howard, Rice's second interim
13 application for compensation and reimbursement of expenses. In this Application, Applicant
14 seeks an order pursuant to Section 331 of the Bankruptcy Code (11 U.S.C. §331)¹ approving
15 and allowing total compensation of \$3,921,634.02 for services rendered and reimbursement
16 of expenses, for the period from August 1, 2001 through November 30, 2001 (comprised of
17 \$3,628,622.51 in fees and \$293,011.51 in costs advanced on the Debtor's behalf).²

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

24 Pursuant to the Order Establishing Interim Fee Application and Expense

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

28 ²As set forth in greater detail in the Summary of Fees and Expenses below, Applicant
has written off approximately \$134,806.23 in fees and \$118,737.89 in expenses, which have
been deducted in calculating these total amounts.

1 Reimbursement Procedure entered herein on July 26, 2001 and the Amended Order
2 Establishing Interim Fee Application and Expense Reimbursement Procedure entered herein
3 on November 8, 2001 (collectively, the "Interim Compensation Order"), the Court
4 authorized procedures for the interim award of compensation and reimbursement of
5 expenses to professionals, including Howard, Rice.

6 On October 26, 2001, this Court entered its Order on First Interim Application for
7 Compensation and Reimbursement of Expenses by Counsel for Debtor-In-Possession
8 (Howard, Rice, Nemerovski, Canady, Falk & Rabkin), awarding Applicant interim
9 compensation of \$4,688,468.39 for services rendered and reimbursement of expenses
10 pursuant to the First Interim Application, and authorizing the Debtor to pay the unpaid
11 portion of such compensation. The fees and expenses of Applicant allowed by such Order
12 have been paid by the Debtor.

13 In accordance with the Interim Compensation Order, Applicant filed monthly
14 interim applications in the form of Monthly Cover Sheet Applications, seeking payment of
15 fees and reimbursement of expenses for the period covered by this Application, in the
16 following amounts, which have been paid as of the date hereof:

<u>Month</u>	<u>Fees</u>	<u>Expenses</u>	<u>Total</u>
17 August	\$696,677.00	\$103,548.02	\$800,225.02
18 September	691,009.62	57,133.55	748,143.17
19 October	874,250.93	75,233.27	949,484.20
20 November	822,391.58	57,090.17	879,481.75

21 Pursuant to the Interim Compensation Order, these amounts reflect a fifteen percent (15%)
22 holdback from the monthly fees incurred. By this Application, Howard, Rice hereby seeks
23 approval of 100% of the fees and expenses incurred for this period, in the following total
24 amounts:
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<u>Month</u>	<u>Fees</u>	<u>Expenses</u>	<u>Total</u>
August	\$819,620.00	\$103,548.02	\$923,168.02
September	812,952.50	57,133.55	870,086.05
October	1,028,530.50	75,233.27	1,103,763.77
November	967,519.50	57,090.17	1,024,609.67

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

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

INTRODUCTION AND CURRENT STATUS

PG&E is an investor-owned utility providing electric and gas services to millions of California residents and businesses. Beginning in late May 2000, as a result of the partial deregulation of the power industry, PG&E was forced to pay dramatically increased wholesale prices for electricity, but has been prevented from passing these costs on to retail customers, resulting in a staggering financial shortfall. In the face of the deterioration in its financial condition and with little progress having been made toward a resolution of the crisis by early April 2001, PG&E determined that a Chapter 11 reorganization offered the best prospects for protecting the interests of its customers, creditors, employees and shareholders alike. Accordingly, PG&E filed a voluntary petition under Chapter 11 of the Bankruptcy Code on April 6, 2001. PG&E continues to manage and operate its business and property as a debtor in possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code. No trustee has been appointed.

Howard, Rice has expended considerable time and effort during the four-month period covered by this Application performing a wide variety of legal services for the estate. Applicant's representation of the Debtor has been multi-faceted, and has called on extensive resources of the firm due to the virtually unprecedented size and complexity of this case. Howard, Rice's representation of the Debtor has also required extraordinary activity in

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1 connection with communications with creditors, governmental entities, management
2 personnel and the Official Committee of Unsecured Creditors (the "Committee"), on
3 virtually a daily basis.

4 During the time period covered by this Application, Howard, Rice expended
5 considerable time with respect to the Plan of Reorganization under Chapter 11 of the
6 Bankruptcy Code for Pacific Gas and Electric Company (the "Plan") proposed by Pacific
7 Gas and Electric Company and its parent, PG&E Corporation (the "Parent"), (collectively, the
8 "Proponents") and the Disclosure Statement with respect thereto, which were filed with the
9 Court in September 2001.

10 Applicant worked closely with the Committee in the negotiation and development
11 of the Plan, and advised and assisted PG&E in reaching (along with the Parent) a Support
12 Agreement with the Committee pursuant to which the parties agreed to take all
13 commercially reasonable actions and use their respective best efforts to achieve timely
14 confirmation and consummation of the Plan. Among other things, the Support Agreement
15 provides for the Committee's full support of the Plan and the transactions and approvals
16 contemplated thereunder. As consideration for the Committee's support of the Plan, the
17 Proponents agreed to include certain provisions beneficial to the unsecured creditors in the
18 Plan, including, generally speaking, payment upon Plan confirmation of accrued, unpaid pre-
19 petition and post-petition interest on allowed claims through confirmation of the Plan,
20 payment of post-petition interest on a quarterly basis thereafter until the Plan's effective
21 date, and taking commercially reasonable actions to ensure that the debt securities issued or
22 sold under the Plan will trade at or above par upon issuance.

23 Howard, Rice also spent considerable time and effort in seeking to resolve the
24 approximately 70 objections submitted to the Disclosure Statement through extensive
25 negotiations and substantial modifications to the Plan and Disclosure Statement, and
26 represented the Debtor at related hearings.

27 In addition, during this Application period, Applicant expended considerable time
28 in advising and assisting PG&E in reaching settlement agreements with a number of entities

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1 known as qualifying facilities ("QFs"), resolving substantial disputes with respect to the
2 parties' respective rights and obligations under certain power purchase agreements. In all,
3 the Debtor reached agreements (and obtained the Bankruptcy Court's approval thereof) with
4 more than 200 QFs, representing more than \$800 million of pre-petition obligations.
5 Generally speaking, such agreements provide for PG&E's assumption of these power
6 purchase agreements, stipulated amounts and dates for cure of pre-petition defaults
7 thereunder, the QFs' waiver of claims to receive the "market rate" for energy delivered and
8 for additional "pecuniary losses" and amendment of the power purchase agreements to take
9 advantage of a price modification permitted under a recent California Public Utilities
10 Commission ("CPUC") decision. These settlements provide certainty to the Debtor and its
11 customers for the delivery of energy on favorable terms, as well as favorably resolving
12 numerous contested matters.

13 Howard, Rice also advised and assisted the Debtor in reaching a comprehensive
14 settlement agreement (and seeking approval thereof by the Bankruptcy Court) with Sempra
15 Energy Trading and its affiliates (collectively, "Sempra") with respect to a number of
16 agreements relating to the sale, transmission, lending and storage of natural gas and setoff
17 claims with respect thereto arising under other transactions and agreements. That settlement
18 agreement provides, among other things, for a payment by Sempra to the Debtor of \$48.5
19 million and for Sempra's waiver of any claim for payment of certain quantities of natural gas
20 delivered to the Debtor.

21 Howard, Rice also expended considerable time with respect to PG&E's appeal
22 and the CPUC's cross-appeal of the Bankruptcy Court's decision in an adversary proceeding
23 brought against the CPUC and its individual commissioners seeking to enjoin and/or stay the
24 implementation and enforcement of a pre-petition decision that adopted retroactive
25 accounting changes, which involves numerous complex issues.

26 During this Application period, Applicant successfully opposed a motion for the
27 appointment of a government creditors' committee by a group of eight California cities and
28 counties, and a motion to intervene by The Utility Reform Network ("TURN") on behalf of

1 residential and small business ratepayers.

2 During the period covered by this Application, Howard, Rice also began assisting
3 PG&E and its consultants in reviewing and analyzing approximately 13,000 claims which
4 have been filed in this case. This work has included extensive counseling on a number of
5 issues regarding the treatment of claims in bankruptcy, including the grounds for objections
6 to claims, and has required research with respect to the myriad of legal issues relevant to
7 these claims.

8 9 SUMMARY OF PROFESSIONAL SERVICES

10 Howard, Rice's services during the period covered by this Application can be
11 generally broken down into 50 separate categories, which are set forth below. The following
12 narrative descriptions summarize salient aspects of Applicant's representation of the Debtor
13 in each category:

14
15 1. Case Administration (.003)³

16 Although Howard, Rice has made every effort to record its time entries into
17 specific matters, a material amount of time is reflected in the Case Administration category.
18 This categorization is appropriate, however, since the administration of this large, complex
19 case entails a significant effort. As lead bankruptcy counsel for the Debtor, Applicant's
20 coordination with the Debtor's senior management and with the many other lawyers and law
21 firms involved in this case is time consuming, but it is essential in order to ensure that
22 matters are handled as efficiently and effectively as possible.

23 During the period covered by this Application, Applicant performed the
24 following services in this category:

- 25 a. Applicant attended numerous meetings and conferences with the Debtor's
26

27 ³The number in parentheses following the title of each matter is the applicable Howard,
28 Rice billing matter number that appears on each invoice.

1 management and in-house legal staff for purposes of communicating important aspects of
2 compliance with relevant bankruptcy law, coordination of tasks, and determination of
3 strategies. By way of example, during the period covered by this Application, Howard, Rice
4 has been involved in regular meetings with PG&E's management to review upcoming
5 matters and oversee staffing, both internal and external. In addition, Applicant has attended
6 regular meetings of a "legal integration" team which consists of various corporate and
7 outside lawyers, the purpose of which is to ensure that the Debtor's various legal experts and
8 in-house legal team are integrated and operating smoothly. Howard, Rice also has attended
9 periodic weekly meetings with the Debtor's chief counsel team to ensure that matters are
10 properly staffed and to determine priorities. Applicant's five bankruptcy partners also meet
11 regularly to communicate regarding outstanding issues, prioritize projects and determine
12 staffing. These meetings are cost beneficial in this case as they avoid duplication of efforts
13 and miscommunication.

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14 b. Applicant responded to numerous inquiries from creditors and counsel for
15 creditors. Howard, Rice has fielded countless inquiries from creditors and counsel regarding
16 this bankruptcy case on a daily basis. In the initial stages of the case, Applicant set up both a
17 dedicated telephone mailbox and a dedicated e-mail address to route routine inquiries. Legal
18 assistants continue to return calls or e-mails and, when appropriate, refer them to attorneys
19 for response.

20 c. Applicant interacts on a daily basis with in-house counsel and the Debtor's
21 management representatives regarding the multitude of bankruptcy issues that continue to
22 arise in this case.

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

1 correspondence is substantial.

2 e. Applicant has coordinated the filing and service of numerous pleadings.
3 During the period covered by this Application, the filing and service of pleadings has been a
4 significant job which is reflected in this matter. Hundreds of pleadings have been filed in
5 the case and each requires attention to ensure that citations are checked, format is
6 appropriate, declarations are signed, hearing dates are obtained and service is effected. Due,
7 in part, to the exigencies of time, in a number of instances the services of more than one
8 legal assistant has been required to complete a given task in a timely manner.

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

11 <u>Total Hours</u>	11 <u>Total Fees⁴</u>	11 <u>Total Expenses⁵</u>
12 955.6	12 \$220,409.50	12 \$293,005.01

13
14 2. Professional Employment (.004).

15 This case has continued to require the efforts of a significant number of
16 professionals. During the period covered by this Application, Applicant performed the
17 following services with respect to the employment and compensation of professionals:

18 a. Applicant continued to advise the Debtor regarding the retention and
19 compensation of numerous professionals in this case, prepared applications for employment
20 of various professionals, including special counsel, investment bankers, auctioneers, real
21 estate brokers and appraisers, and the Plan voting agent, and assisted professionals in
22 complying with the applicable provisions of the Bankruptcy Code, the Federal Rules of
23 Bankruptcy Procedure (the "Bankruptcy Rules"), the guidelines regarding the compensation

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25 ⁴This amount includes \$1,237.50 in fees for travel time that would not be compensable
26 pursuant to the Amended Interim Compensation Order. Applicant will credit this amount in
its next Cover Sheet Application.

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 \$118,737.89 as described more fully below.

1 of professionals promulgated by this Court (the "Guidelines") and orders entered in this case
2 by the Court governing professionals' employment and compensation. Applicant also
3 consulted with counsel for the United States Trustee (the "UST") on various professional
4 employment issues.

5 b. Applicant conducted extensive research and analysis regarding the
6 employment of professionals to ensure that, under applicable case law interpreting
7 Section 327 of the Bankruptcy Code, the Debtor was appropriately seeking to employ
8 persons who were performing certain services for the Debtor that could be considered
9 professional services, other than attorneys and accountants with respect to which the
10 requirements for employment are well-defined. In addition, Applicant conducted research
11 and analysis regarding the standards for employing counsel under Section 327(a) of the
12 Bankruptcy Code (matters central to the administration of the estate) versus under Section
13 327(e) (traditional special counsel role).

14 c. Applicant reviewed the monthly fee applications and interim fee
15 applications filed by other professionals in this case, and consulted with the Debtor with
16 respect to such applications.

17 d. Applicant prepared four monthly cover sheet applications and its First
18 Interim Application during this period.

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>
1,248.4	\$311,614.00

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24 3. General Operations (.005).

25 Applicant has continued to provide advice and assistance to the Debtor on a
26 variety of matters concerning its ongoing operations as debtor in possession, and has
27 counseled the Debtor concerning compliance with applicable bankruptcy law.

28 During the period covered by this Application, Howard, Rice performed the

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1 following services in connection with the Debtor's general operations:

2 a. Applicant attended regular meetings of PG&E's board of directors for
3 purposes of advising the board regarding its duties on behalf of a debtor and debtor in
4 possession, reporting on progress and significant events in the Debtor's Chapter 11 case,
5 answering questions posed by board members, and discussing the proposed Plan with the
6 board.

7 b. Applicant responded to numerous inquiries from creditors regarding the
8 status of the bankruptcy case and various issues regarding individual creditors' treatment in
9 the case. Applicant advised the Debtor with respect to ongoing employee communications
10 and media communications regarding the bankruptcy case.

11 c. Applicant attended conference calls with the investor community on a
12 regular basis and consulted with the Debtor regarding such presentations.

13 d. Applicant conducted extensive research and analysis and counseled the
14 Debtor's officers and in-house counsel concerning issues regarding the treatment of PG&E's
15 main line extension contracts in the context of the bankruptcy case. The Debtor is a party to
16 approximately 50,000 such contracts, and there has been an ongoing need to communicate
17 with and respond to counterparties to these contracts. Applicant has attended meetings with
18 groups of such counterparties and their counsel during the period covered by this
19 Application.

20 e. Applicant advised the Debtor regarding its outstanding governmental
21 licenses and permits, and began drafting a motion to address certain governmental
22 regulations related thereto. Debtor's management ultimately decided that it did not wish to
23 file such a motion, based on its determination that such matters could be dealt with more
24 effectively through the Plan.

25 f. Applicant continued to advise the Debtor concerning its ability to conduct
26 certain post-petition transactions in the ordinary course of its business.

27 g. Applicant prepared various motions to enable the Debtor to conduct its
28 business in the ordinary course, including a motion for approval of a contract for

1 manufacture of a used nuclear fuel storage system.

2 h. Applicant advised the Debtor concerning miscellaneous operational issues,
3 such as SEC filings, treatment of energy service provider ("ESP") credits, treatment of
4 certain administrative claims and property tax refund requests.

5 i. Applicant consulted regularly with PG&E's in-house counsel and
6 management regarding compliance with the requirements of applicable bankruptcy law in
7 conducting its operations.

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>
292.8	\$88,673.00

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13 4. Employee Compensation (.006).

14 Howard, Rice provided advice and assistance regarding disclosure, in filings by
15 the Debtor with the SEC, of the employee retention program previously approved by this
16 Court.

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>
0.6	\$267.00

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22 5. Regulatory Matters (.007).

23 Hearings and other proceedings before the Federal Energy Regulatory
24 Commission ("FERC") and the CPUC have continued post-petition. During the period
25 covered by this Application, Howard, Rice performed the following services in connection
26 with such regulatory matters:

27 a. Applicant continued to advise and respond to inquiries from PG&E's
28 management and regulatory counsel regarding the intersection of bankruptcy law and state

1 and federal law regulating PG&E's operations, and to monitor legal developments in that
2 area. For example, Applicant advised PG&E about its obligations with respect to CPUC
3 licensing fees, advised PG&E representatives about issues involving an appeal from CPUC
4 proceedings that was subject to the automatic stay and advised PG&E with respect to
5 discovery propounded in a pending CPUC proceeding that concerned the Plan.

6 b. Applicant continued to monitor and consult with management and
7 regulatory counsel concerning a wide range of activities before the FERC and the CPUC
8 concerning their regulation of PG&E and other participants in California's energy markets,
9 including the California State Department of Water Resources (the "DWR"); in addition,
10 Applicant continued to monitor PG&E's filed rate litigation against the CPUC, and
11 consulted with PG&E about such matters.

12 c. Applicant continued to assist the Debtor in pursuing its challenge in
13 Bankruptcy Court to an order entered by the CPUC directing the Debtor to enter into a
14 servicing agreement with the DWR, and to advise the Debtor with respect to aspects of the
15 Debtor's pursuit of various state law remedies.

16 d. Applicant undertook extensive factual and legal analysis regarding the
17 implications of anticipated and actual appearances by various State entities in the
18 Bankruptcy Court and advised the Debtor in connection with their legal and strategic
19 implications.

20 e. Applicant monitored a settlement between Southern California Edison
21 ("Edison") and the CPUC regarding Edison's undercollected power costs, announced in
22 October 2001.

23 f. Applicant provided advice with respect to proposed testimony before the
24 FERC in connection with the bankruptcy case.

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

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Total Hours

Total Fees

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\$198,255.50

6. Real Property Leases (.008).

As explained in the First Interim Application, PG&E is the lessee under approximately 250 real property leases covering a range of uses. During the period covered by this Application, Applicant performed the following services in connection with this matter:

a. Due to the number of real estate leases involved and the complexity of this case, during the period covered by the First Interim Application, Applicant sought and obtained, on Debtor's behalf, extensions of time to take action to assume, assume and assign or reject its real property leases. During the period covered by this Application, Applicant determined that all or substantially all assumption, assumption and assignment or rejection decisions needed to be made in connection with the Plan, and Applicant therefore prepared an appropriate motion and supporting papers for a second extension of time for the Debtor to assume, assume and assign or reject its real property leases consistent with the timetable for obtaining confirmation of the Plan. Application appeared at the hearing on such motion, which was granted.

b. Applicant continued to counsel and advise the Debtor regarding a range of issues arising with respect to one or more leases in its portfolio of leases. This involved numerous telephone calls, conference calls and e-mails and occasional meetings with one or more of the Debtor's in-house counsel, special outside real estate counsel, and various business persons responsible for the Debtor's leases. For example, specific questions and issues arose with respect to the Debtor's real property leases commonly referred to by the Debtor as the Hookston Square Lease, the 123 Mission Lease, the Rocklin Lease, the Pinnacle Towers Leases, the City of San Mateo Lease and the Eureka Leases. Some of these issues required the review of one or more substantial documents, and most of them entailed

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1 some amount of legal research. Further, the resolution of some of these issues resulted in the
2 need for negotiated stipulations with the applicable lessor and sometimes required motions
3 seeking specified relief, which Applicant either documented or assisted the Debtor's special
4 outside real estate counsel in documenting. Finally, Applicant also performed analysis and
5 advised the Debtor with respect to issues cutting across various leases or situations, such as
6 real property lease vs. real property license characterizations and the potentially dramatically
7 different consequences following from such distinctions.

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>
79.0	\$19,401.00

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13 7. Personal Property Leases and Executory Contracts (.009).

14 The Debtor is a party to tens of thousands of personal property leases and
15 executory contracts. Applicant has continued to consult with PG&E with respect to the
16 treatment of executory contracts. During the period covered by this Application, Applicant
17 performed the following services with respect to personal property leases and executory
18 contracts:

19 a. Applicant researched numerous executory contract issues and consulted
20 with the Debtor regarding such issues, including the effect of rejection of contracts and the
21 types of contracts that may be considered executory.

22 b. Applicant consulted with the Debtor regarding a software license contract
23 with SAP America that the Debtor ultimately decided to assume. Applicant has prepared a
24 motion for authority to assume such contract, which it expects will be filed shortly.

25 c. Applicant reviewed numerous documents and consulted with the Debtor
26 regarding certain contracts with Siemens Westinghouse related to equipment used in the
27 Debtor's Diablo Canyon nuclear power plant.

28 With respect to this category, the number of hours spent and the amount of

1 compensation requested are as follows:

2	<u>Total Hours</u>	<u>Total Fees</u>
3	149.5	\$34,245.00

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5 8. Cash Collateral (.010).

6 Substantially all of PG&E's assets have been pledged as collateral to secure its
7 obligations of approximately \$3.5 billion under certain mortgage bonds. PG&E has also
8 pledged gas-related receivables and inventory to secure its obligations under agreements
9 with gas suppliers, to ensure an adequate supply of gas for PG&E's customers. The use of
10 such secured creditors' cash collateral during PG&E's bankruptcy case is necessary to
11 enable PG&E's continued operations. During the period covered by this Application,
12 Howard, Rice performed the following services with respect to cash collateral issues:

13 a. Applicant assisted in ensuring PG&E's compliance with its obligations
14 under the stipulation with the indenture trustee for use of the mortgage bondholders' cash
15 collateral (the "Cash Collateral Stipulation"), including review and payment of the indenture
16 trustee's fees and expenses, and procedures to provide the indenture trustee with documents
17 to which it is entitled under the Cash Collateral Stipulation. Applicant also conferred with
18 the indenture trustee's counsel regarding various relief sought by PG&E in the bankruptcy
19 case, to ensure consistency with the provisions of the Cash Collateral Stipulation.

20 b. Applicant negotiated and participated in the drafting of a motion to replace
21 the indenture trustee as the trustee under various unsecured indentures, a related tri-party
22 agreement with the new trustee and related documents.

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

25	<u>Total Hours</u>	<u>Total Fees</u>
26	19.4	\$6,820.00

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

2 This category encompasses a variety of post-petition issues respecting certain of
3 the many different types of debt issuances of the Debtor outstanding as of and after the
4 Debtor's Chapter 11 filing. More specifically, during the period covered by this Application,
5 Applicant performed the following services in this category:

6 a. As explained in Applicant's First Interim Application, among the Debtor's
7 different types of outstanding indebtedness, extant both before and after the Debtor's Chapter
8 11 filing, are more than \$1 billion of bonds commonly known as the "Pollution Control
9 Bonds." Although technically issued by a public instrumentality and political subdivision of
10 the State of California known as the California Pollution Control Financing Authority (the
11 "Authority"), this \$1 billion-plus of Pollution Control Bonds is effectively indebtedness of
12 the Debtor pursuant to a series of inter-related documents entered into between or among
13 various parties, including the Authority, the Debtor and a trustee under various separate trust
14 indentures pertaining to the Pollution Control Bonds. A substantial portion of the Pollution
15 Control Bonds are credit enhanced by outstanding letters of credit ("LCs") issued by various
16 banks or by a financial guaranty insurance policy issued by a large insurer, in each case for
17 the account of the Debtor and for the benefit of the applicable trustee (the "Credit Enhanced
18 PC Bonds"). The Credit Enhanced PC Bonds provide financing at interest rates favorable to
19 the Debtor because of their tax-exempt status. After taking into account somewhat technical
20 and arcane tax doctrines, the Debtor concluded that it was a desirable financing objective to
21 try to maintain as much of the Credit Enhanced PC Bonds outstanding as possible, and to
22 encourage the LC-issuing banks and the insurer to refrain from triggering events that would
23 cause the redemption of the Credit Enhanced PC Bonds. Accordingly, the Debtor embarked
24 upon a multi-part action agenda respecting the Credit Enhanced PC Bonds, which included
25 first negotiating and documenting an interim deal with the LC-issuing banks (the "first phase
26 stipulation") that would preserve the status quo while the Debtor formulated its Plan and
27 continued negotiations with the LC-issuing banks and the insurer for acceptable treatment of
28 them under the Plan (the "second phase stipulation"). Although there were substantial

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1 negotiations and drafts regarding the first phase stipulation during the period covered by the
2 First Interim Application, material negotiations, drafting and revising of the first phase
3 stipulation continued and were concluded during the period covered by this Application,
4 requiring many hours of Applicant's attention. In addition, after obtaining the concurrence
5 of the Committee and various other interested parties regarding the first phase stipulation,
6 Applicant finalized and filed a motion and supporting papers for approval of the first phase
7 stipulation, appeared at the hearing thereon, and prepared the order granting the motion. In
8 addition, Applicant assisted the Debtor in connection with reviewing and approving various
9 related successive technical amendments to the Debtor's reimbursement agreement with the
10 lead LC-issuing bank.

11 b. During the period covered by this Application, as the contours and
12 substance of the Debtor's Plan took shape, Applicant also devoted substantial time to
13 assisting the Debtor and coordinating with counsel for the Parent (a proponent of the Plan) in
14 negotiations with the LC-issuing banks and the insurer regarding the second phase
15 stipulation for acceptable treatment of them under the Plan (which has become the basis for
16 the treatment of the Class 4e creditors under the First Amended Plan), which involved many
17 conference calls and meetings, some with only the Debtor (or the Debtor and its Parent) and
18 others involving participation of one or more of the LC-issuing banks or the insurer.
19 Although not finalized during the period covered by this Application, substantial progress on
20 the second phase stipulation was made during the period covered by this Application.

21 c. On a parallel but later track with the negotiations with the LC-issuing banks
22 and insurer for the second phase stipulation aimed at preserving the benefits of outstanding
23 Pollution Control Bonds, the Debtor also commenced negotiations with other LC-issuing
24 banks whose letters of credit backing other series of Pollution Control Bonds had not been
25 reinstated, resulting in presentment of such letters of credit and payment on the applicable
26 Pollution Control Bonds. Applicant reviewed necessary underlying documentation and
27 assisted the Debtor and the Parent's counsel in ongoing negotiations with such LC-issuing
28 banks (who are classified as Class 4f creditors under the Plan) with respect to concerns they

1 have articulated regarding their proposed treatment under the Plan.

2 d. Applicant also continued to field a range of questions regarding various
3 other debt issuances or institutional indebtedness of the Debtor outstanding as of the Chapter
4 11 filing, including questions pertaining to (i) the Debtor's fully drawn unsecured credit
5 facility aggregating approximately \$1 billion with a syndicate of banks, (ii) the Debtor's so-
6 called "Mortgage Bonds" aggregating approximately \$3.5 billion under that certain
7 Indenture dated as of December 1, 1920, and (iii) the Debtor's so-called "QUIPS/QUIDS"
8 financing in the amount of approximately \$300 million. In addition, with respect to the
9 QUIPS/QUIDS financing, Applicant assisted the Debtor in negotiating and preparing an ex
10 parte application for authority to register and list the QUIDS on two securities exchanges in
11 light of the pending liquidation of the QUIPS Trust and the mandatory distribution of the
12 QUIDS held by the QUIPS Trust upon such liquidation, in order to facilitate the liquidity of
13 the QUIDS without any material cost to the Debtor.

14 e. Applicant assisted the Debtor in negotiating a \$10 million cash
15 collateralized letter of credit from Union Bank in favor of a counterparty in connection with
16 a gas exchange agreement for the Debtor's purchase of Canadian natural gas. Applicant
17 assisted the Debtor in obtaining the necessary concurrence from the trustee under the
18 Mortgage Bonds Indenture, prepared the necessary motion and supporting papers to obtain
19 Bankruptcy Court approval of such letter of credit, appeared at the hearing on the motion
20 and successfully obtained an order granting the motion.

21 f. Applicant assisted the Debtor in negotiating a cash deposit of \$2.2 million
22 with Bank One as a condition of Bank One continuing its commercial credit card
23 arrangements with the Debtor, thereby enabling certain of the Debtor's employees to
24 continue to have access to corporate credit cards for expenses incurred on behalf of the
25 Debtor in the ordinary course of business. Applicant secured the necessary concurrence of
26 the Committee and the trustee under the Mortgage Bonds Indenture to this cash deposit,
27 prepared an ex parte application for authority to post this deposit, and obtained an order
28 granting the application.

1 g. Applicant advised the Debtor respecting various requests and demands by
2 trustees under various indentures for reimbursement of fees or costs.

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>
139.7	\$51,561.50

5
6
7
8 10. Relief From Stay (.012).

9 Debtor has continued to encounter various issues related to the automatic stay
10 imposed by Section 362 of the Bankruptcy Code. During the period covered by this
11 Application, Applicant performed the following services in this category:

12 a. Applicant advised the Debtor with respect to a number of motions for relief
13 from stay that were filed in this case by litigants seeking to continue certain state and federal
14 court litigation that was commenced prior to the filing of the bankruptcy petition. Howard,
15 Rice negotiated with moving parties, consulted with the Debtor and the Debtor's outside
16 litigation counsel regarding such negotiations and prepared numerous stipulations for relief
17 from stay, as well as some motions or applications for relief from stay where such relief was
18 desired by the Debtor, such as in connection with certain condemnation actions. In certain
19 cases, Applicant also prepared opposition pleadings with respect to a number of motions for
20 relief from stay; however, in most cases, the motions were resolved by stipulation prior to
21 the hearings on such motions.

22 b. Applicant conducted research and analysis of the applicability of the
23 automatic stay to various actions taken or threatened to be taken by regulators, creditors and
24 other parties, and met with PG&E's in-house counsel to discuss strategy with respect to
25 various pending litigation matters.

26 c. Applicant researched and prepared a motion seeking authority to hire and
27 pay mediators in connection with attempting to settle pending pre-petition litigation claims.

28 With respect to this category, the number of hours spent and the amount of

1 compensation requested are as follows:

2 Total Hours

Total Fees

3 312.3

4 \$68,769.50

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

6 The Debtor has tens of thousands of creditors with myriad types of claims,
7 aggregating billions of dollars, many of which raise complex issues. During the period
8 covered by this Application, Howard, Rice performed the following services with respect to
9 creditor claims and objections to claims:

10 a. Applicant responded to objections with respect to its motion to establish
11 deadlines and procedures for the filing of certain administrative claims (the preparation and
12 filing of the motion were the subject of Applicant's First Interim Application). Howard,
13 Rice successfully argued at the hearing for approval of such motion, and prepared and
14 obtained entry of an order granting such relief. Applicant also prepared a form of
15 administrative claim and a form of notice regarding such deadlines and procedures.
16 Howard, Rice negotiated the form of these documents with certain interested parties.

17 b. Applicant extensively advised and assisted the Debtor in categorizing and
18 analyzing claims of creditors and implementing procedures for reconciling claims,
19 negotiating discrepancies and formulating objections to allowance, where appropriate.
20 Applicant also provided the Debtor with detailed guidelines for analyzing claims for
21 objection purposes.

22 c. Howard Rice researched and prepared detailed memoranda regarding
23 procedural and substantive matters with respect to objections to claims and related strategic
24 considerations, including providing exemplars of various types of objections. Such
25 memoranda included claim estimation issues (including substantive matters such as plan
26 voting and feasibility, as well as procedural issues), bifurcation of claim objections,
27 mandatory counterclaim and *res judicata* issues, burden and standard of proof issues,
28 informal proofs of claim issues and untimely proofs of claim issues.

1 d. Howard, Rice advised the Debtor regarding numerous issues related to
2 claim analysis and objection, including issues with respect to litigation claims (including
3 stay relief and abstention), class proofs of claim issues with respect to claims arising out of
4 main line extension contracts, and procedures for streamlining the objection process,
5 including potential appointment of persons to assist the . Applicant conducted necessary
6 related legal research and analysis.

7 e. After advising the Debtor and consulting with the Committee, Applicant
8 prepared a motion for authority to compromise certain creditor claims without further Court
9 approval, including related legal research and factual investigation. Such motion has been
10 granted by the Court.

11 f. Howard, Rice prepared a motion for authority to submit certain preliminary
12 omnibus objections to claims, without waiving the right to later submit specific objections if
13 necessary, and for relief from certain aspects of Bankruptcy Rule 7026 in litigating claim
14 objections, including related analysis and legal research. Such motion has been granted by
15 the Court.

16 g. Applicant analyzed, performed legal research and prepared objections
17 respecting several extremely large claims involving billions of dollars.

18 h. Applicant negotiated and assisted the Debtor in negotiating the amount and
19 classification of numerous creditor claims.

20 i. Applicant prepared generic forms of stipulation for resolving various types
21 of claim objections, including trade claims and litigation claims.

22 j. Applicant prepared a generic form for withdrawal of claims.

23 k. Applicant conducted legal research and analysis regarding various issues
24 with respect to setoffs asserted by creditors.

25 l. After conducting appropriate legal and factual investigations, Applicant
26 negotiated and documented stipulations with various creditors asserting setoff rights, on
27 terms deemed favorable to the Debtor's estate, and obtained the Court's approval thereof.

28 m. Applicant responded to numerous inquiries regarding creditors' claims and

1 the potential treatment of their claims.

2 n. Howard, Rice regularly advised and assisted the Debtor with respect to the
3 foregoing and related matters, including participating in regularly scheduled meetings with
4 the Debtor and other professionals regarding these matters. In some instances, two or more
5 Howard, Rice attorneys participated in such meetings. Applicant believes that the use of
6 multiple professionals in this context is appropriate, given the large number of claims
7 (approximately 13,000) in this case and the multitude of issues raised by such claims. In
8 addition, in order to support the Debtor's efforts with respect to review and analysis of this
9 large volume of claims (and potential objections thereto), it is necessary to involve several
10 Howard, Rice attorneys. The attendance by such attorneys at certain meetings is essential to
11 achieving consistency and efficiency in this process.

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>
844.5	\$246,951.50

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14 12. Asset Sales (.014).

15
16
17 The two attorney time entries in this matter, aggregating 1.3 hours, were
18 erroneously recorded in this matter and should have been recorded under Real Property
19 Sales (.026). Accordingly, see Section 22 below for the relevant summary regarding the
20 time recorded in this matter.
21

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

<u>Total Hours</u>	<u>Total Fees</u>
1.3	\$715.00

24
25
26
27 13. Plan And Disclosure Statement (.015).

28 Since the earliest days of this Chapter 11 case, senior management of the Debtor

1 and of its Parent, the co-proponent of the Plan, have been focused on efforts to formulate a
2 plan, confirm a plan and emerge from Chapter 11. Applicant has participated in those
3 efforts in a significant fashion. During the period covered by this Application, these efforts
4 have become much more significant. Howard, Rice performed the following services with
5 respect to this matter:

6 a. Applicant attended meetings, usually several times a week, with a senior
7 management group (the "plan team") to discuss tactics, strategy and substantive issues
8 regarding the restructuring plan. The work of the plan team has been supported by hundreds
9 of PG&E and PG&E Corporation employees, consultants and attorneys working on specific
10 aspects of the Plan and potential alternatives. The shorter meetings have been supplemented
11 by periodic longer meetings, including off-site meetings, where strategic and substantive
12 decisions are reached regarding the Plan and Disclosure Statement.

13 b. Significant efforts have been expended in dealing with the myriad issues
14 arising in conjunction with the formulation and drafting of a plan in a case of this magnitude
15 and complexity. Applicant has been involved in negotiating, drafting and considering the
16 underlying legal issues with respect to all facets of the Plan. These efforts culminated in the
17 filing on September 20, 2001 of the Plan and Disclosure Statement herein.

18 c. After the Plan was filed, Applicant participated in ongoing outreach efforts
19 to various creditor constituencies and members of the financial community. These efforts
20 included a visit to New York the week after the Plan was filed. Along with members of
21 management and other professionals, Applicant participated in several days of meetings with
22 various analysts, rating agencies and creditor representatives, explaining the economics and
23 legal underpinnings of the Plan. Numerous other groups were met with at different times to
24 explain the Plan's impact and to obtain feedback on issues of importance to the members of
25 such groups.

26 d. During this period, Applicant undertook extensive efforts to seek the
27 approval of its Disclosure Statement and respond to objections thereto. Applicant prepared
28 for and participated in a status conference in October, 2001 at which time it made

1 suggestions to the Court resulting in the development of a process for dealing with
2 Disclosure Statement objections. The State of California and the CPUC argued that certain
3 of the declaratory and injunctive relief being sought under the Plan required adversary
4 proceedings. As a consequence, the Court required that the parties make such contentions
5 independent of their other objections to the Disclosure Statement. Applicant reviewed and
6 responded to those pleadings and, thereafter, the Court rejected the position of the CPUC,
7 the State and others. Applicant also began its review and response to the numerous other
8 objections to the Disclosure Statement filed in late November 2001. Certain time relevant to
9 these efforts has been billed to Matter No. 068 (Plan Prosecution), at Section 48 below.

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>
1,073.2	\$385,988.50

12
13
14
15 14. Adversary Proceedings (.016).

16 Applicant has billed to this matter services performed in connection with actual
17 and contemplated adversary proceedings and contested matters that were not billed to more
18 specific matters. During the period covered by this Application, Applicant performed the
19 following services with respect to such adversary proceedings and contested matters:

20 a. Howard, Rice regularly assisted and advised PG&E regarding a variety of
21 existing and contemplated adversary proceedings, contested matters and non-Bankruptcy
22 Court proceedings, including litigation strategy and tactics. Applicant also researched and
23 advised the Debtor regarding various litigation issues, including statute of limitations and
24 tolling issues.

25 b. Howard, Rice responded to objections to the Debtor's claim in another
26 bankruptcy case (Lord Electric), including related factual and legal investigation, and
27 assisted the Debtor in negotiating a settlement of such claim. Applicant participated in the
28 drafting of the settlement agreement and prepared a motion for approval of such settlement

1 in PG&E's own bankruptcy case, including a proposed order thereon.

2 c. Howard, Rice assisted the Debtor in coordinating its discovery responses in
3 the myriad of legal and administrative proceedings in which it is involved.

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>
45.1	\$14,215.50

6
7
8
9 15. CPUC & FERC (.017).

10 Amounts billed to this matter are described in Matter No. 007 above. (Future
11 time records will consolidate these matters.)

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>
16.4	\$5,628.00

14
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 United
21 States Bankruptcy Court for the Central District of California:

22 a. Howard, Rice advised and assisted the Debtor in pursuing claims before the
23 California Victim Compensation Board based on the Governor of California's
24 commandeering of PG&E's block forward contracts (which the PX had threatened to
25 liquidate), valued at hundreds of millions of dollars.

26 b. Applicant advised and assisted the Debtor in its inverse condemnation
27 action brought in the San Francisco Superior Court against the State of California with
28 respect to the commandeering of such block forward contracts. This included issues

1 regarding coordination with other inverse condemnation actions filed against the State by the
2 PX and its individual participants, and other strategic issues.

3 c. Howard, Rice prepared opposition to the State's motion for relief from stay
4 to pursue a declaratory relief action against PG&E, the PX and individual PX participants in
5 the Sacramento Superior Court with respect to the block forward contracts, and certain
6 unrelated counterclaims against the Debtor (to recover amounts expended by the State's
7 Department of Water Resources to purchase power for PG&E's customers), including
8 related factual investigation and legal research. In addition to these issues, PG&E's
9 opposition addressed complex sovereign immunity issues raised by the Motion. Applicant
10 advised and assisted the Debtor in extensive negotiations with the State resulting in a
11 settlement resolving such motion, providing for the alternative relief proposed in the
12 Debtor's opposition to the Motion, including a prohibition against the State's pursuit of
13 counterclaims against PG&E. Howard, Rice participated in the drafting of that settlement
14 agreement and obtaining Court approval thereof.

15 d. Applicant monitored developments in the PX's bankruptcy case and before
16 the FERC, and advised and assisted the Debtor with respect to matters that could implicate
17 the Debtor or its bankruptcy estate, including the methodology for allocating the claims of
18 participants in the PX markets against PG&E and other utilities and distributions on account
19 of such claims, and the treatment of funds held in escrow by the PX with respect to such
20 obligations. Howard, Rice analyzed the Chapter 11 plan and disclosure statement for the PX
21 submitted by the PX's participants committee ("PX Participants Committee") and advised
22 the Debtor regarding its strategy with respect thereto.

23 e. Applicant advised and assisted the Debtor regarding litigation with respect
24 to a surety bond securing the performance by PG&E (and other utilities) of certain
25 obligations in the PX markets.

26 f. Applicant advised and assisted the Debtor regarding the treatment of
27 various contracts between PG&E and the PX in their respective bankruptcy cases.

28 With respect to this category, the number of hours spent and the amount of

1 compensation requested are as follows:

2	<u>Total Hours</u>	<u>Total Fees</u>
3	204.5	\$55,230.50

4
5 17. Litigation-Generators (.020).

6 During the period covered by this Application, Applicant has continued to assist
7 PG&E with a number of matters concerning its relations with approximately 330 of its gas
8 suppliers, power generators and QFs.

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

11 a. During the period covered in Applicant's First Interim Application, Applicant
12 assisted PG&E in reaching agreements and documenting stipulations (the "Stipulations")
13 with certain QFs for the assumption of the power purchase agreements ("PPAs") between
14 PG&E and such QFs. Among other things, the Stipulations provide for the Debtor to cure
15 arrearages under the PPAs by the Effective Date of the Plan. The assumption agreements
16 left the issue of the interest rate to be applied to the pre-petition payables to be resolved
17 either through additional negotiation by the Debtor and the QFs or, if no agreement could be
18 reached, through the Plan confirmation process.

19 b. During the period covered by this Application, Applicant assisted the Debtor
20 in concluding negotiations with several of its larger QFs, including the Calpine QFs and the
21 GWF Group, resolving those issues. Applicant prepared supplemental agreements between
22 PG&E and these QFs, which modified the assumption agreements by setting the interest rate
23 for pre-petition payables at five percent (5%) per annum; providing for a "catch-up"
24 payment to be paid on December 31, 2001, and providing for an accelerated payment of the
25 principal amount of pre-petition arrearages (and interest thereon) in installments
26 commencing on December 31, 2001.

27 c. Applicant prepared a Motion to approve these supplemental agreements,
28 which was granted by the Bankruptcy Court. Pursuant to the Motion, the Court approved

1 the supplemental agreements not only with the Calpine QFs and the GWF Group, but also
2 numerous other QFs, and established a procedure for the Debtor to seek approval of similar
3 supplemental agreements by stipulation rather than by noticed motion.

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

6	<u>Total Hours</u>	<u>Total Fees</u>
7	979.7	\$212,080.00

8
9 18. Creditor And Committee Matters (.022).

10 This matter is designed to capture issues related to dealing with creditors
11 generally, and specifically, with the Committee. Time spent in connection with opposing the
12 appointment of a governmental creditors' committee was also included within this matter.

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

15 a. Creditors. The Debtor has tens of thousands of creditors. The bankruptcy
16 filing has raised many questions and issues that require the ongoing attention of Howard,
17 Rice. Applicant attempted to be responsive in the most cost-effective manner. As described
18 in connection with Matter No. 003 above, during the initial days of the case, Applicant set
19 up a dedicated voice mailbox and e-mail address for creditor inquiries, to which Applicant
20 has continued to respond during this period.

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

26 b. Creditors' Committee. Shortly after the commencement of this case, the
27 Committee was appointed and since that time Applicant has advised the Debtor regarding its
28 relationship with the Committee as well as working directly with the Committee and its

1 professionals. There have been numerous meetings and telephone calls with the Committee
2 (or special committees or sub-groups of the Committee) and the necessary preparation for
3 these meetings. Applicant believes that it has been instrumental in establishing a good
4 working relationship with the Committee. Howard, Rice and PG&E have attempted to seek
5 the input of the Committee prior to taking any material actions in this case and to seek its
6 support on significant matters.

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

<u>Total Hours</u>	<u>Total Fees</u>
474.2	\$172,186.50

11
12 19. DWR (.023).

13 As discussed in Applicant's First Interim Fee Application, in the summer of
14 2001, the Debtor entered into negotiations regarding a "servicing agreement" with the DWR
15 under which the Debtor would provide, pursuant to California Assembly Bill 1X-1 (adopted
16 on February 1, 2001), billing and collection services for electric power that the DWR
17 provides to electric power customers of the Debtor. When the negotiations between the
18 Debtor and the DWR concerning the form of the servicing agreement reached an impasse,
19 the DWR filed an application with the CPUC, enclosing a draft of the servicing agreement
20 which contained provisions to which the Debtor had not agreed (the "Disputed Draft
21 Agreement"), and requesting that the CPUC order the Debtor to execute the Disputed Draft
22 Agreement. In response to the DWR's application, the CPUC issued a draft order (the
23 "CPUC Order") ordering the Debtor to execute the Disputed Draft Agreement, and perform
24 according to the terms thereof.

25 The Debtor objected to the form of the Disputed Draft Agreement, because it
26 contained provisions to which the Debtor had not agreed (and which appeared to be
27 detrimental to the Debtor and its estate); the Debtor also objected to the CPUC Order,
28 because the Debtor believed that it was premature to order the Debtor to enter into any form

1 of servicing agreement prior to the CPUC's determination of issues related to the Debtor's
2 performance under such an agreement (e.g., the determination of the DWR's revenue
3 requirement). Over the Debtor's objections, the CPUC subsequently finalized the CPUC
4 Order; however, the CPUC Order also provided that if the Debtor believed that entering into
5 a form of servicing agreement required approval by the Bankruptcy Court, the Debtor was
6 directed to seek such approval by a motion to be filed within a specified period

7 During the period covered by this Application, Applicant assisted the Debtor in
8 motion practice before the CPUC objecting to both the draft and final versions of the CPUC
9 Order. Applicant also assisted the Debtor in evaluating its rights and obligations as a debtor-
10 in-possession with regard to the Disputed Draft Agreement and the CPUC Order. This
11 analysis was complex, because it required Applicant to balance the Debtor's duty to respond
12 to the CPUC Order in an appropriate and timely manner, with the Debtor's duty to preserve
13 the assets of the estate. Ultimately, Applicant prepared a motion that was submitted to the
14 Court which, while responding to the directive of the CPUC Order that the Debtor promptly
15 file a motion bringing the Disputed Draft Agreement before the Bankruptcy Court, took the
16 relatively unusual position of arguing that the motion was not a proper motion under section
17 363 of the Bankruptcy Code (use of property of the estate) because (a) the Debtor did not
18 believe that the Disputed Draft Agreement was beneficial to the estate, and (b) for all of the
19 reasons that the Debtor had disputed entry of the CPUC Order, the Debtor would not have
20 brought the Disputed Draft Agreement to the Court, absent the directive in the CPUC Order
21 that it do so. The Motion remains pending before this Court, and is set for hearing on
22 February 26, 2001, (having been continued twice at the request of the State of California and
23 the CPUC).

24 In addition, Applicant provided advice to the Debtor regarding negotiation of a
25 DWR-proposed agreement between the DWR and the Debtor regarding real-time electric
26 energy purchases by the DWR for the Debtor's electric power customers (and numerous
27 revisions thereof), and the Debtor's ongoing interactions with the DWR generally.

28 With respect to this category, the number of hours spent and the amount of

1 compensation requested are as follows:

2	<u>Total Hours</u>	<u>Total Fees</u>
3	240.5	\$70,394.00

4
5 20. TURN Accounting Adversary Proceeding (.024).

6 As more particularly described in Applicant's First Interim Application, shortly
7 after the Debtor's Chapter 11 case commenced, Howard, Rice initiated an adversary
8 proceeding on behalf of PG&E against the CPUC and its individual commissioners seeking
9 to enjoin and/or stay the implementation and enforcement of a pre-petition decision that
10 adopted retroactive accounting changes, which raised numerous complex issues. During the
11 period covered by this Application, Howard, Rice continued to pursue PG&E's appeal of the
12 Bankruptcy Court's adverse decision in this matter, and performed the following particular
13 services:

- 14 a. Monitored the Bankruptcy Court's preparation of the appellate record and
15 the District Court's initiation of a briefing schedule.
- 16 b. Prepared PG&E's opening brief on appeal and its excerpts of the appellate
17 record.
- 18 c. Advised PG&E and coordinated with counsel in PG&E's pending filed rate
19 case with respect to a request by United States District Court Judge Vaughn Walker for
20 briefing as to whether PG&E's appeal in this matter is related to, and should be heard by the
21 same District Court judge as PG&E's pending filed rate case.
- 22 d. Analyzed the appellate brief filed by the CPUC in opposition to PG&E's
23 appeal and in support of its cross-appeal of the Bankruptcy Court's decision, which raised a
24 number of legal issues not addressed in PG&E's opening brief; conducted additional legal
25 research; and prepared a combined brief in opposition to the CPUC's opening brief in its
26 cross-appeal and reply brief in support of PG&E's appeal. PG&E's reply brief raised as an
27 issue the State's waiver of its Eleventh Amendment sovereign immunity, based principally
28 on appearances and actions taken in the Bankruptcy Court since the filing of its opening

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1 brief (on October 1, 2001); in connection with this argument, Applicant was required to
2 assemble and put into the record voluminous evidence of the State's actions.

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>
732.7	\$206,186.00

8 21. Environmental Issues (.025)

9 As noted in Howard, Rice's First Interim Application, the Debtor's operations
10 have included manufactured gas plant sites, natural gas gathering system sites, natural gas
11 compressor station sites, electric transmission and distribution facilities, steam-electric
12 power plant sites, hydroelectric power plant sites, nuclear power plant sites and service
13 centers. The Debtor owns numerous separate parcels of real property and is a tenant under
14 approximately 250 leases. As a necessary part of its business, the Debtor has used and
15 continues to use a variety of different hazardous materials at a number of its sites. Given the
16 size and nature of its business operations, its long operating history, and the many properties
17 that the Debtor owns and leases, the cleanup and remediation of sites containing hazardous
18 substances is an ordinary and recurring part of the Debtor's business and will be for many
19 years to come. In addition, the Debtor, by virtue of its business and activities, is subject to
20 numerous non-bankruptcy federal and state laws governing the management and cleanup of
21 hazardous wastes and substances. Against this backdrop, Applicant rendered the following
22 services in this category during the period covered by this Application:

23 a. Applicant has continued to assist the Debtor in addressing and dealing with
24 a wide range of bankruptcy-related issues pertaining to environmental matters. Assisting the
25 Debtor in dealing with environmental issues in the bankruptcy context has involved studying
26 specific laws, regulations and documents and conferring with a range of employees familiar
27 with various aspects of the issues presented, as well as communicating with governmental
28 agencies and regulators and, on occasion, private parties with whom the Debtor has entered

1 into "Principal Responsible Party" agreements for monitoring and/or remediation of
2 contaminated or potentially contaminated property. In addition, in light of the fact that the
3 claims bar date occurred during the period covered by this Application, and the Debtor
4 during such period undertook its first review of environmental claims that were timely filed,
5 Applicant consulted with the Debtor and responded to numerous questions of the Debtor
6 regarding positions taken in or documents attached to the environmental claims filed by
7 many different governmental and private parties.

8 b. Applicant consulted with the Debtor and its special outside insurance
9 counsel for environmental matters regarding a range of insurance issues pertaining to
10 environmental damages. In addition to analyzing a number of insurance-related issues, this
11 entailed discussing and documenting relief-from-stay stipulations to the extent necessary to
12 enable suits to be filed to trigger insurance coverage under applicable non-bankruptcy law.

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>
26.4	\$10,700.00

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18 22. Real Property Sales (.026).

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

1 Howard, Rice has continued to provide advice and assistance to the Debtor on an ongoing
2 basis in connection with the Bankruptcy Code overlay on many real estate transactions.

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

5 a. Applicant has continued to counsel the Debtor in connection with a range of
6 specific real property sale transactions being negotiated or pending at the time of the Chapter
7 11 filing. This has included the review of proposed post-petition contracts for proper
8 bankruptcy authorization/approval provisions as a condition to the Debtor being bound, as
9 well as determining whether such approval or notice and an opportunity for hearing was
10 necessary for certain transactions. In addition, Applicant has analyzed a wide range of
11 diverse and unique contract-specific issues for the Debtor, such as, for example, the effect of
12 a pre-petition option agreement for the sale of real property that is sought to be exercised
13 post-petition.

14 b. Applicant also has continued to counsel the Debtor in connection with
15 actual or threatened eminent domain proceedings and determining what Bankruptcy Court
16 approvals, if any, are necessary under Section 363 of the Bankruptcy Code and/or
17 Bankruptcy Rule 9019 for a sale to a condemning agency based on a stipulated judgment in
18 an eminent domain proceeding. Applicant assisted the Debtor in documenting stipulations
19 for some such transactions and in obtaining Bankruptcy Court approval therefor.

20 c. In light of the numerous real property-related sales transactions that the
21 Debtor routinely undertakes, the difficulty of being able to determine in every instance
22 whether a proposed sale is or is not in the "ordinary course of business" for purposes of
23 Section 363 of the Bankruptcy Code, and the title policy issues that often arise when a
24 debtor tries to consummate a sale of real property without a bankruptcy court order,
25 Applicant, during the period covered by the First Interim Application, started assisting the
26 Debtor in preparing an "omnibus" motion for the sale of real property (among other things)
27 within specified dollar parameters, such that the motion covers all real property sales below
28 a threshold dollar amount, and all sales below a higher specified amount so long as any such

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1 proposed sale is noticed to the Committee and the Committee does not object to the
2 proposed sale within a specified number of days. This labor-intensive project continued for
3 the first two months of the period covered by this Application, resulting in a very detailed
4 omnibus motion that was finalized, heard and approved during the period covered by this
5 Application. Applicant also assisted the Debtor in discussions with the Committee and the
6 Mortgage Bond Indenture Trustee to obtain their concurrence with the motion. In
7 connection with obtaining the Mortgage Bond Indenture Trustee's consent, extensive
8 discussions and negotiations regarding the aspects of the motion under Section 363(f) of the
9 Bankruptcy Code and the resulting order were necessary.

10 d. Applicant also devoted considerable time to assisting the Debtor in
11 preparing a motion for sale free and clear of liens of the Debtor's so-called "Kern Facility,"
12 a former generation site that has been shut down for a substantial time. The Kern Facility
13 was the subject of pending issues with the CPUC, inasmuch as the Debtor already had
14 contracted for sale of the facility to a credible purchaser who intended to restart the facility
15 as a generation plant, had applied to the CPUC for permission to consummate such sale, had
16 been denied such permission for reasons the Debtor strongly disagreed with, and had applied
17 for reconsideration by the CPUC. Against this backdrop, the Governor of California, by a
18 special Executive Order, appeared to have overridden the CPUC's denial and had effectively
19 instructed the Debtor to proceed to seek Bankruptcy Court approval of the sale pursuant to
20 Section 363 of the Bankruptcy Code. Nonetheless, the precise effect of the Executive Order
21 was not entirely clear under existing law. The motion required extensive negotiations with
22 the prospective purchaser regarding the form of motion and order, as well as negotiations
23 with the Mortgage Bond Indenture Trustee regarding the form of motion and order, because
24 the property needed to be sold free and clear of the Trustee's lien. The motion also required
25 extensive factual and legal discussion about the convoluted background. Prior to the hearing
26 on the motion, the Debtor's intent was to proceed with the sale if it obtained permission
27 from the Bankruptcy Court under Section 363 of the Bankruptcy Code, on the supposition
28 that the CPUC would recognize the supremacy of the Governor's Executive Order and

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1 would no longer stand in the way of the sale. However, near the eve of the hearing on the
 2 motion, the CPUC issued a decision/order requiring the Debtor to submit a revised
 3 application in light of the Governor's Executive Order, and with such an unexpected
 4 decision having been issued, the Debtor and the purchaser were no longer willing to take the
 5 risk of proceeding with the sale without an express ruling from the Bankruptcy Court that
 6 the Executive Order "trumped" the CPUC action. At the hearing on the motion, the
 7 Bankruptcy Court granted the Debtor's motion under Section 363 but declined to make any
 8 ruling respecting the effect of the CPUC's action and the Governor's Executive Order.
 9 Considerable discussions were then required among the interested parties regarding revisions
 10 to the form of the order granting the motion to be presented to the Bankruptcy Court.
 11 Subsequently, Applicant consulted with the Debtor regarding further discussions and
 12 negotiations with the purchaser over what course of action to take once the Bankruptcy
 13 Court's order granting the motion was entered. Based on those discussions, the Debtor
 14 determined to proceed to file the additional application ordered by the CPUC, and Applicant
 15 assisted the Debtor in connection with certain aspects of that application. The matter
 16 remains pending.

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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>
230.6	\$79,252.50

22 23. Reclamation Issues and Disputes (.027).

24 Applicant has continued to spend time during the period covered by this
 25 Application addressing reclamation claims made by creditors who have sent notices to the
 26 Debtor purporting to reserve their rights under Section 2702 of the California Commercial
 27 Code and Section 546(c) of the Bankruptcy Code. During the period covered by this
 28 Application, Applicant performed the following services with respect to this matter:

1 a. Applicant consulted with the Debtor's representatives concerning
2 reclamation claims, and responded to inquiries from creditors regarding their reclamation
3 claims.

4 b. Applicant, in consultation with PG&E, prepared summaries of reclamation
5 claims to facilitate review and analysis of such claims and development of strategies for
6 dealing with reclamation claims.

7 c. Applicant prepared a form letter for use in corresponding with creditors
8 who have asserted reclamation claims.

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>
56.2	\$11,031.50

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14 24. California Independent System Operator (.028).

15 The adversary proceeding that Howard, Rice initiated on behalf of PG&E against
16 the California Independent System Operator ("ISO") on May 2, 2001 remains pending, and
17 is described more particularly in Howard, Rice's First Interim Application. In addition to
18 attending to matters associated with ongoing case management, Howard, Rice performed the
19 following services with respect to this matter during the period covered by this Application:

20 a. Applicant prepared an answer on behalf of PG&E to the cross-complaint
21 filed by intervenors Reliant Energy, Inc. and Reliant Energy Services, Inc. ("Reliant"), and
22 in connection therewith, negotiated a stipulation with Reliant concerning the scope of issues
23 potentially in dispute with them in the action.

24 b. Applicant has been involved in negotiations with the ISO and the other
25 parties to the action concerning a possible stay of the litigation in light of the preliminary
26 injunction entered by this Court at PG&E's request and ongoing developments at the FERC.
27 In connection with these negotiations, Howard, Rice also performed related legal research.
28 Following issuance of the preliminary injunction, PG&E and the ISO entered discussions

1 which contemplated a negotiated stay upon terms that would adequately protect PG&E's
2 interests. However, in approximately late August 2001, evidence came to light that
3 prompted some concern on the part of various generators as to whether the ISO was
4 complying with its obligations regarding payment for DWR power purchases; this concern
5 prompted several of the generators to file a motion before the FERC seeking an order
6 directing the ISO to comply with its payment obligations. At Reliant's request, the parties
7 reached a stipulation enabling Reliant to depose the ISO in this action, which deposition
8 took place in October 2001. Thereafter, FERC entered an order requiring payment by the
9 DWR of outstanding invoices and directing the ISO to bill the DWR directly for its power
10 purchases. (DWR subsequently filed for rehearing of this order, after the period covered by
11 this Application.) Following FERC's most recent order, the parties have sought to enter into
12 discussions regarding a stipulated disposition of this action.

13 c. Discovery in this matter has continued. Howard, Rice's efforts were
14 principally devoted to gathering and preparing documents for possible production to the ISO
15 and preparing discovery responses; preparing for and attending the ISO's deposition;
16 attending to third-party discovery propounded to the DWR by PG&E and Reliant;⁶ and
17 monitoring developments in the Chapter 11 case with respect to PG&E's Bankruptcy Rule
18 2004 request to the ISO (discussed in connection with Matter No. 048).

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

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23 ⁶Both PG&E and Reliant served third-party subpoenas on the DWR, which served
24 objections and filed a motion to quash both subpoenas (in the United States District Court
25 for the Eastern District of California) principally on Eleventh Amendment immunity
26 grounds. Howard, Rice commenced meeting and conferring with the DWR, and the parties
27 negotiated and entered into a stipulation to coordinate a hearing on DWR's two motions to
28 quash. Shortly after Howard Rice filed its opposition to the DWR's motion, the DWR
withdrew its motions at approximately the same time that it moved for relief from the
automatic stay in the Bankruptcy Court with respect to a unrelated matter. Howard Rice has
obtained documents from the DWR pursuant to the third party subpoena, and has been
advising and conferring with PG&E with respect to discovery strategy in light of ongoing
FERC developments and other considerations.

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<u>Total Hours</u>	<u>Total Fees</u>
404.9	\$122,027.50

25. Sierra Pacific Litigation (.029).

This matter number was created for a discrete piece of QF litigation that was commenced in state court shortly before PG&E's Chapter 11 filing by Sierra Pacific Industries, Inc. ("SP"), a QF under contract with PG&E. During the period covered by the First Interim Application, Applicant was materially involved with the initial bankruptcy-related issues raised by this litigation. Subsequently, one of the Debtor's outside special litigation counsel took primary responsibility for this litigation, since it is a contract dispute based primarily on non-bankruptcy law. During the period covered by this Application, Applicant from time to time conferred with outside special litigation counsel and/or the Debtor's in-house counsel monitoring this litigation, and reviewed select pleadings at their request, in connection with bankruptcy-related issues.

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>
11.8	\$4,221.50

26. DWR Payment Action (.030).

As explained in greater detail in the First Interim Application, the risk that a portion of PG&E's revenues could be allocated to the DWR to cover all, or some portion, of the DWR's revenue needs for the power that the DWR has been procuring under AB1X remains a matter of critical importance to PG&E. Howard, Rice has continued to assist PG&E in analyzing potential actions that might be taken to prevent PG&E's revenues from being misappropriated by the DWR. In connection with these services, Howard, Rice has continued to monitor developments with respect to the DWR's power procurement activities,

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1 perform legal research and analysis with respect to possible legal actions, and assess the
2 possible commencement of additional adversary proceedings.

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>
637.3	\$179,704.00

7
8 27. Schedules and Statement of Affairs (.031).

9 During the period covered by this Application, Applicant conferred with and
10 assisted the Debtor and certain consultants utilized by the Debtor in connection with
11 inquiries concerning the Debtor's Schedules and Statement of Affairs.

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>
0.7	\$164.50

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17 28. Intellectual Property-General (.032).

18 This work is a continuation of general counseling work that was commenced
19 prior to the bankruptcy filing regarding the protection of the Debtor's intellectual property.

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

<u>Total Hours</u>	<u>Total Fees</u>
8.7	\$2,669.00

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24
25 29. Energy Efficiency Dept. (.034)

26 This work also involves protection of the Debtor's intellectual property in
27 connection with a particular department of the Debtor.

28 With respect to this category, the number of hours spent and the amount of

1 compensation requested are as follows:

<u>Total Hours</u>	<u>Total Fees</u>
6.4	\$1,475.50

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6 29. Website (.37).

7 During the period covered by this Application, Applicant performed the
8 following services in this category:

9 a. Applicant established and maintained a central repository of pleadings and
10 hearing transcripts online to prevent inefficiencies and duplication of effort in the retrieval of
11 documents by Howard, Rice and PG&E's in-house counsel.

12 b. Applicant created a detailed index of documents to be uploaded to the
13 online repository of pleadings and hearing transcripts.

14 c. Applicant consulted with PG&E's in-house counsel regarding the
15 maintenance of the website.

16 d. Applicant maintained an online calendar to coordinate and manage case
17 scheduling.

18 e. Applicant scanned documents for circulation in electronic form.

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>
963.8	\$87,600.50

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25 30. E-Commerce (.042).

26 This work is a continuation of the work that Applicant did prior to the bankruptcy
27 and during the period covered by the First Interim Application, advising PG&E on its
28 website and the various contracts and legal issues that arise in providing service to customers

1 "on-line."

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	15.6	\$4,975.00

6
7 31. Modesto Irrigation District (.046).

8 This matter concerns an appeal by the Modesto Irrigation District ("MID") of an
9 order upholding PG&E's contention that a California statute required approval of the
10 expansion of MID's operations to the generation and sale of power outside its district
11 boundaries. During the period covered by this Application, Applicant assisted PG&E in
12 connection with the appeal, which is still pending, by reviewing and editing the appeal brief
13 (which was prepared by PG&E's in-house counsel), and conducting research on issues
14 related to the appeal.

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

17	<u>Total Hours</u>	<u>Total Fees</u>
18	38.5	\$15,207.50

19
20 32. POSDEF (.047).

21 This matter was created for a discrete piece of litigation commenced in California
22 state court shortly after PG&E's Chapter 11 filing by a QF known as POSDEF. As with the
23 Sierra Pacific Litigation described in Matter No. 026 above, one of the Debtor's outside
24 special litigation counsel subsequently took primary responsibility for the POSDEF
25 litigation, since it was a contract dispute based primarily on non-bankruptcy law. During the
26 period covered by this Application, Applicant also recorded time in this matter for separate
27 but related issues with POSDEF regarding a stipulation with POSDEF for preserving
28 POSDEF's setoff rights.

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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:

3 <u>Total Hours</u>	4 <u>Total Fees</u>
5 7.1	6 \$1,369.00

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

8 PG&E has engaged in extensive efforts to obtain information pursuant to
9 Bankruptcy Rule 2004 regarding, *inter alia*, transactions involving billions of dollars in the
10 wholesale electricity markets maintained or operated by the ISO and the PX. Among other
11 things, PG&E seeks to evaluate and analyze billions of dollars of claims against it by
12 electricity sellers, who acted as “participants” and/or “scheduling coordinators” in the
13 markets operated by the PX and the ISO (collectively, “Participants”) and potential setoffs or
14 counterclaims with respect to such claims. Based on the sheer magnitude and complexity of
15 the claims involved, as well as certain Participants’ attempts to prevent disclosure or
16 dissemination of such information, PG&E’s efforts to obtain this information have been
17 quite costly and time-consuming. During the period covered by this Application, Applicant
18 performed the following services with respect to Bankruptcy Rule 2004 examination issues:

19 a. Applicant extensively “met and conferred” with counsel for the ISO and
20 Participants regarding the ISO’s failure to produce to PG&E and Participants all documents
21 ordered to be produced by this Court’s orders issued on July 11, 2001. At a hearing on
22 PG&E’s motion to compel such compliance, Howard, Rice argued for the Court to overrule
23 the ISO’s asserted bases for failure to produce certain documentation and to compel the
24 ISO’s production. Such efforts resulted in the ISO producing to PG&E a substantial amount
25 of information previously withheld from production. In addition, Applicant analyzed the
26 ISO’s motion to modify the Court’s July 11, 2001 order regarding production of documents
27 to Participants and represented the Debtor at a hearing with respect thereto.

28 b. Howard, Rice prepared a motion for authority to disclose responsive
information produced by the PX and the ISO under a stringent protective order, to certain

1 specified "key personnel" of PG&E and its Parent, including extensive factual investigation
2 and legal research. Howard, Rice reviewed and analyzed the ISO's objections to that motion
3 and "met and conferred" with the ISO in an attempt to resolve such objections. Applicant
4 also addressed numerous objections to such motion raised by Participants at the hearing
5 thereon. Howard, Rice revised PG&E's proposed order on that motion and a related
6 nondisclosure agreement, to address concerns raised by such parties. Applicant represented
7 the Debtor at a lengthy hearing with respect to that motion, as well as a number of similar
8 motions submitted by Participants, after analyzing and consulting with PG&E regarding
9 such motions. The papers prepared by Howard, Rice contained extensive procedures
10 designed to protect the responsive information from improper dissemination and use, which
11 procedures were utilized as a framework for the Participants' motions.

12 c. Applicant advised and assisted PG&E with respect to filings with the
13 FERC, potentially including conclusions based on review of the information provided by the
14 ISO and PX pursuant to the Court's July 11, 2001 Order. Howard, Rice also prepared
15 notices to Participants regarding such proposed disclosure in accordance with the Court's
16 July 11, 2001 order.

17 d. Applicant prepared a Bankruptcy Rule 2004 motion seeking documents
18 from the PX with respect to certain block forward transactions, including related factual
19 investigation. Howard, Rice prepared a related proposed order and nondisclosure
20 agreement. Applicant revised such documents after meeting and conferring with objecting
21 parties (including the PX, the PX Participants Committee and individual Participants),
22 thereby resolving such objections.

23 e. Applicant regularly advised and assisted PG&E with respect to the
24 foregoing matters.

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

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Total Hours

Total Fees

179.7

\$54,939.50

34. Sempra Disputes and Litigation (.049).

As described in the First Interim Application, PG&E has been involved with numerous disputes with Sempra Energy Trading ("Sempra") arising from various agreements and transactions between the parties aggregating hundreds of millions of dollars, including those involving gas lending and storage, gas purchases and "swap" transactions, electricity sold through the ISO and PX, and asserted setoff rights with respect thereto. During the period covered by this Application, Applicant continued to advise and assist PG&E with settlement negotiations with Sempra, including reviewing and revising a settlement agreement, participating in calls with Sempra's counsel regarding settlement issues, and conferring with in-house counsel. In November, 2001, the Debtor entered into a final, written settlement agreement with Sempra which, subject to Bankruptcy Court approval, settled all outstanding disputes with Sempra under the Sempra gas agreements and certain orders of the Department of Energy, and reserved resolution of certain disputes regarding electricity services between Sempra and the Debtor. Applicant drafted a motion seeking Bankruptcy Court approval of the settlement agreement, which was granted.

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

Total Hours

Total Fees

132.6

\$30,377.00

35. E-Meter (.051).

As described in the First Interim Application, 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

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1 use over 200 kw of electricity). Pursuant to such legislation, funding for installation of the
 2 interval meters is administered by the California Energy Commission (the "CEC").
 3 However, due to the CEC's reluctance to contract directly with PG&E as a debtor-in-
 4 possession, eMeter Corporation ("eMeter") was brought in as an intermediary. The result
 5 was that separate contracts were negotiated between the CEC and eMeter, on the one hand,
 6 and eMeter and PG&E, on the other hand. During the period covered by this Application,
 7 Applicant drafted a license agreement covering the use of PG&E trademarks and logos by
 8 eMeter in connection with a website hosting software tools available to customers using
 9 interval meters, a privacy policy for the eMeter website, and a "conditions of use" for the
 10 eMeter website.

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>
	90.2	\$27,895.00

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16 36. Mirant Litigation (.053).

17 During the period covered by this Application, Applicant prepared for and met
 18 with Mirant's representatives in an effort to resolve Mirant's claims against the Debtor's
 19 estate arising from various agreements and transactions between the parties.

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>
	1.5	\$825.00

25 37. Enron Disputes and Litigation (.054).

26 PG&E has been involved with numerous disputes with Enron Corporation and a
 27 number of its affiliates (collectively, "Enron") arising from various agreements and
 28 transactions between the parties aggregating hundreds of millions of dollars, including those

1 involving electricity and gas purchases and "swap" transactions, electricity sold through the
2 ISO and the PX, and asserted setoff rights with respect thereto. During the period covered
3 by this Application, Applicant performed the following services with respect to disputes and
4 litigation with Enron:

5 a. Applicant advised and assisted PG&E in analyzing the claims and defenses
6 against Enron. Howard, Rice researched and prepared a detailed memorandum regarding a
7 number of setoff issues, including mutuality and agency issues.

8 b. Applicant advised and assisted PG&E in negotiations with Enron regarding
9 Enron's attempt to recoup or offset hundreds of millions of dollars of "ESP credits"
10 allegedly owed pre-petition by PG&E to Enron against Enron's post-petition obligations to
11 PG&E, and Enron's subsequent motion for relief from stay seeking to obtain such relief
12 from the CPUC. Howard, Rice conducted extensive factual investigation and legal research
13 and began preparing an opposition to such motion. Based on the parties' ongoing global
14 settlement discussions (discussed below), the hearing on such motion has been continued
15 several times, and PG&E's opposition to the motion has not been finalized.

16 c. Applicant advised and assisted PG&E in global settlement discussions with
17 Enron in an effort to resolve numerous disputed issues between the parties.

18 d. Howard, Rice advised and assisted the Debtor in protecting the estate's
19 interests with respect to its transactions with and credit exposure from Enron's deteriorating
20 financial condition in late November 2001.

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

23	<u>Total Hours</u>	<u>Total Fees</u>
24	143.2	\$49,227.50

25
26 38. Oildale Energy (.055).

27 During the period covered by this Application, Applicant has continued to
28 monitor the proceedings in the Chapter 11 bankruptcy case filed by Oildale Energy (a QF

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1 that is a party to a PPA with PG&E).

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

<u>Total Hours</u>	<u>Total Fees</u>
0.9	\$322.00

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7 39. PSE Appeal (.056).

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

10 a. As stated in the First Interim Application, Puget Sound Energy ("PSE")
11 appealed this Court's ruling denying PSE's motion seeking relief from stay (and other
12 relief). The appeal was fully briefed, and was argued before the Honorable Marilyn Hall
13 Patel, United States District Judge, on July 31, 2001. At the conclusion of the hearing,
14 Judge Patel requested that the parties submit additional evidence (in the form of exhibits)
15 pertaining to certain issues. During the period covered by this Application, Applicant
16 assisted in preparing and submitting these additional exhibits. On January 7, 2002, Judge
17 Patel issued an order affirming this Court's ruling on PSE's Motion.

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>
7.4	\$1,233.50

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23 40. Three Mountain Power (.057).

24 During the period covered by this Application, Applicant continued to advise the
25 Debtor, including reviewing and revising a construction contract, specifications and other
26 documents, with respect to the proposed construction by Three Mountain Power, LLC of
27 new transmission lines and a substation. As described in the First Interim Application, in
28 this transaction, Three Mountain Power proposes to build the improvements to support a

1 new generation facility, subject to PG&E's specifications and review.

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

<u>Total Hours</u>	<u>Total Fees</u>
11.9	\$4,760.00

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7 41. Oildale Appeal (.058).

8 During the period covered by this Application, Applicant monitored an appeal
9 taken by Oildale Energy from this Court's June 1, 2001 order (described in the First Interim
10 Application) on the motions filed by certain QFs seeking, *inter alia*, relief from stay.

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>
1.0	\$360.00

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16 42. Martinez Appeal (.059)

17 In addition to Oildale, Martinez Cogen ("Martinez") was a QF that appealed this
18 Court's June 1, 2001 order described in the First Interim Application on the motions filed by
19 certain QFs seeking, *inter alia*, relief from stay. Prior to the period covered by this
20 Application, PG&E moved to assume Martinez's PPA (as described in Matter No. 020
21 above), which motion was granted by this Court. The assumption agreement permitted
22 Martinez to "opt-out" of the agreement in the event that certain conditions subsequent were
23 not satisfied by certain dates set forth in the agreement. All such conditions having been
24 satisfied, the assumption is final for all purposes, and this appeal accordingly has become
25 moot. During this Application period, Applicant performed minimal work monitoring the
26 course of the appeal and reviewing stipulations regarding a briefing schedule in the appeal.

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

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Total Hours

Total Fees

1.2

\$239.00

43. Plan of Reorganization Defensive Litigation (.060)

Various aspects of PG&E's retail electric rates are the subject of pending proceedings before the CPUC. As with the DWR's power procurement activities, the manner in which PG&E's electric retail rates are set is a matter of critical importance to PG&E's continued viability, its Plan and the success of this reorganization. Howard, Rice has assisted PG&E in analyzing potential actions that might be taken to protect PG&E's interests as a result of decisions by the CPUC affecting PG&E's electric retail rates. In connection with this work, Howard, Rice has devoted significant resources to analyzing a number of complex substantive and procedural legal issues, assessing the pertinent regulatory background and monitoring proceedings before the CPUC, and coordinating strategy with other outside counsel for PG&E, as appropriate.

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

Total Hours

Total Fees

568.9

\$159,784

44. Generator Claims (.061)

Approximately 200 claims aggregating billions of dollars have been filed against the Debtor's estate by generators and other electricity sellers, in addition to several hundred claims aggregating over \$1 billion by QFs. During the period covered by this Application, Applicant performed the following services with respect to such "generator" claims:

- a. Applicant reviewed and analyzed numerous complex generator claims and various summaries and analyses prepared with respect thereto. Howard, Rice attended periodic meetings with PG&E and its professionals regarding such claims and strategies for

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1 resolving them, including negotiation, objection and estimation.

2 b. Applicant advised and assisted the Debtor regarding various generator
3 claims objection and estimation issues, including duplication and/or overlap of claims filed
4 by the PX and the ISO and their respective Participants and sovereign immunity issues,
5 conducted related legal research and factual investigation, and prepared memoranda with
6 respect thereto.

7 c. Howard, Rice advised and assisted PG&E in evaluating a settlement
8 proposal submitted to the FERC by the PX Participants Committee, and participated in
9 meetings with the PX Participant Committee and individual generators regarding resolution
10 of their claims.

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>
124.5	\$47,799.50

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45. Claim of Baldwin Associates, Inc. (.062)

Baldwin Associates, Inc. filed a claim, in the total amount of "at least
\$5,000,000,000," the single largest claim against the Debtor's estate. During the period
covered by this Application, Applicant reviewed and evaluated the claim, conducted legal
and factual research concerning the basis for the claim and PG&E's response thereto
(including research into the corporate status of the claimant entity), and drafted an objection
to the claim. The Court sustained PG&E's objection and disallowed the claim, granting the
claimant leave until January 4, 2002 to file an amended proof of claim.

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>
50.0	\$12,674.00

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46. Grynberg Litigation (.064)

Jack J. Grynberg ("Grynberg") filed a claim in the amount of \$2.48 billion based on *qui tam* litigation pending in the United States District Court for the District of Wyoming, in which the Debtor is a named defendant. That case has been consolidated in the District of Wyoming with approximately 70 other cases brought by the same plaintiff pursuant to Multi-District Litigation procedures. The complaints in those cases challenge alleged mismeasurement by defendants of the volume and wrongful analysis of the heating content of natural gas, causing substantial underpayments of royalties to the United States, in violation of the Federal False Claims Act, 31 U.S.C. §3729 *et seq.* During the period covered by this Application, Applicant assisted PG&E in its initial review and evaluation of the claim, including preliminary factual investigation and legal research. Howard Rice also prepared an *ex parte* application under Bankruptcy Rule 2004 for an order compelling Grynberg to produce documents relating to the claim.

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>
61.8	\$19,105.00

47. Claim of Wayne Roberts (.067)

Wayne Roberts filed a claim in the amount of \$4 billion, the second largest claim against the Debtor's estate. The claim purports to be brought as an individual and class claim on behalf of all PG&E residential and small commercial ratepayers, who have paid increased electricity rates to PG&E since January 1, 2001, and focuses on three alleged transactions between PG&E and the Parent, dating to the formation of that holding company on January 1, 1997. The claim alleges that the subject transactions violated numerous CPUC provisions and other state statutes, CPUC decisions, and common-law doctrines. During the period covered by this Application, Applicant assisted PG&E in reviewing and evaluating the claim, analyzing the complex transactions on which it is based and conducting legal

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1 research regarding the basis for the claim and PG&E's response thereto.

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

<u>Total Hours</u>	<u>Total Fees</u>
186.6	\$54,357.50

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7 48. Plan Prosecution (.068)

8 As described in Matter No. 015, above, Applicant has been actively engaged in
9 formulating and drafting the Plan and Disclosure Statement, which were initially filed on
10 September 20, 2001 and the First Amended Plan and First Amended Disclosure Statement,
11 that were filed on December 19, 2001. This matter includes time expended by Applicant in
12 connection with supporting PG&E's efforts to obtain approval of the Disclosure Statement
13 and, ultimately, confirmation of the Plan. Over 70 objections were filed with respect to
14 PG&E's Disclosure Statement, and Applicant's efforts in this matter required a team of
15 attorneys to research and analyze the multitude of complex issues raised by such objections,
16 to meet and confer with the objecting parties filing the objections to attempt to resolve them,
17 and to strategize with PG&E regarding responding to these objections.

18 The efforts of Applicant in connection with this matter are also described in
19 Matter No. 015 above. As with other substantial matters in this case, the Plan Prosecution
20 matter has required a team of attorneys and legal assistants from Howard, Rice to research
21 and analyze the complex issues raised by the objections to the Disclosure Statement, to meet
22 and confer with the multitude of objectors, and to attempt to respond to those objections
23 which could be addressed through amendments to the Disclosure Statement. Applicant
24 worked to avoid duplication of effort in connection with this matter, but there were a number
25 of meetings and conferences which required the attendance of some or all of the attorneys
26 working on this matter. Applicant believes that these meetings, and the use of numerous
27 professionals, were necessary in connection with this complex matter that involved issues
28 that are central to the Debtor's ultimate ability to achieve a confirmed reorganization plan.

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

3 a. Applicant reviewed objections filed to the approval of the Disclosure
4 Statement, and conducted extensive research regarding various issues raised by the
5 objectors, including standards for approval of disclosure statements generally, preemption of
6 state law pursuant to Section 1123(a)(5) of the Bankruptcy Code, the propriety of asserting
7 objections to the Disclosure Statement that address what essentially are plan confirmation
8 issues, and appropriate interest rates on claims under chapter 11 plans.

9 b. In response to the Court's determination that it would separately consider
10 whether it was necessary for adversary proceedings to be filed with respect to certain relief
11 sought pursuant to the Plan, Applicant conducted substantial research and legal briefing on
12 this question.

13 c. Applicant researched the applicability to this case of certain amendments to
14 the Bankruptcy Rules.

15 d. Applicant prepared and served notice of a status conference with respect to
16 approval of the Disclosure Statement, and prepared for and attended this status conference,
17 which was a key hearing with respect to the entire Plan confirmation process.

18 e. Applicant analyzed and research issues concerning preservation of
19 confidentiality with respect to communications regarding the Plan and Disclosure Statement.

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

22 Total Hours

Total Fees

23 821.6

\$236,549.50

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26 49. Patent Matters (.069)

27 During the period covered by this Application, Howard, Rice reviewed a
28 potential claim against PG&E raised by an employee, in the form of a draft complaint,

1 concerning a patent owned by the employee. Applicant is assisting PG&E in reviewing the
2 patent and investigating the claims and defenses of PG&E with respect to the claims asserted
3 by the employee, which include, among other things, unfair competition and patent
4 infringement.

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>
10.5	\$4,882.50

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10 50. Rotor Contract (.070)

11 During the period covered by this Application, Applicant has assisted PG&E in
12 negotiating and documenting a contract for the purchase by PG&E of replacement steam
13 turbines for its Diablo Canyon nuclear power plant. It is estimated that the design,
14 manufacture and installation of the turbines will take approximately two years and cost
15 approximately \$100 million.

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>
97.0	\$33,302.50

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21 SUMMARY OF FEES AND EXPENSES

22 Between August 1, 2001 and November 30, 2001, Applicant has expended
23 13,407.8 hours in the performance of the services described above. The following
24 summarizes Howard, Rice's attorney, legal assistant and other professional time and their
25 respective standard hourly billing rates for the period from August 1, 2001 through
26 November 30, 2001:

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<u>Attorney</u> ⁷	<u>Total Hours</u>	<u>Hourly Rate</u>	<u>Total Fees</u>
<u>Directors:</u>			
Barry A. Abbott	63.4	465.00	\$ 29,481.00
Ben Berk	1.0	435.00	435.00
Jennifer L. Blackman	0.3	340.00	102.00
Bernard A. Burk	1.0	385.00	385.00
Pauline E. Calande	113.9	385.00	43,851.50
Jerome B. Falk	51.9	550.00	28,545.00
Susan Heller	2.9	400.00	1,160.00
Joseph B. Hershenson	44.7	375.00	16,762.50
Gary M. Kaplan	664.8	340.00	225,430.26
Gary P. Kaplan	0.7	435.00	304.50
William J. Lafferty	723.9	360.00	260,010.03
Stuart S. Lipton	1.7	550.00	935.00
James L. Lopes	882.2	550.00	483,111.00
Steven L. Mayer	9.8	475.00	4,655.00
Timothy S. McCann	4.0	410.00	1,640.00
Kenneth A. Neale	65.3	375.00	24,488.00
Janet A. Nexon	582.0	385.00	223,623.00
Jeffrey L. Schaffer	538.4	415.00	223,057.00
Steven E. Schon	241.0	430.00	103,974.00
Ethan P. Schulman	208.0	385.00	80,080.00

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⁷The resume of each professional person is attached as Exhibit "B" to this Application. (This exhibit 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.)

1	Neil Smith	10.5	465.00	4,882.50
2	Therese M. Stewart	181.7	395.00	71,771.50
3	<u>Associates:</u>			
4	Sachin Adarkar	44.6	290.00	12,934.00
5	Kimberly A. Bliss	446.5	240.00	103,012.50
6	Amy Bomse	287.5	190.00	52,737.00
7	Susy Chen	19.6	190.00	3,724.00
8	Shelli Ching	9.0	290.00	2,610.00
9	Marty Courson	17.3	280.00	4,844.00
10	Juliet E. Dawsari	18.6	215.00	3,999.00
11	Peter J. Drobac	130.9	265.00	34,097.50
12	Cara Frey	7.9	190.00	1,501.00
13	Tyler J. Fuller	142.4	255.00	34,861.50
14	Oksana Jaffe	2.7	245.00	661.50
15	Inna M. Katsen	130.2	240.00	31,243.00
16	Keith Kessler	32.9	255.00	8,389.50
17	Jin Kim	160.3	240.00	38,472.00
18	Sarah M. King	176.7	280.00	48,112.50
19	Julie Landau	411.2	300.00	123,307.00
20	David Lawson	45.6	255.00	11,628.00
21	Tracey M. Luttrell	44.3	255.00	11,376.11
22	Thomas Magnani	27.3	190.00	5,187.00
23	Amy E. Margolin	791.4	310.00	241,347.00
24	Scott D. Minden	7.0	290.00	2,008.50
25	J. Alexander Moore	80.9	280.00	22,095.50
26	Jeff Norberg	26.9	180.00	4,842.00
27	Joseph Quinn, III	243.3	290.00	70,878.00
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1	Shaban Shakoori	20.6	215.00	4,429.00
2	Alison B. Shames	0.2	255.00	51.00
3	Clara J. Shin	493.8	255.00	122,960.00
4	Erik M. Silber	31.5	255.00	8,030.82
5	John O. Sutton	103.6	215.00	21,004.00
6	Lisa Turbis	270.8	255.00	69,318.00
7	Jenna Whitman	209.6	190.00	38,538.10
8	Ceide Zapparoni	577.7	255.00	142,963.74
9				
10	<u>Legal Assistants/Legal Assistant Clerks</u>			
11	Julie Barley	5.0	185.00	925.00
12	Josh Bennett	391.9	100.00	39,101.00
13	Kathleen A. Boyd	541.6	185.00	100,196.00
14	John C. Carrillo	24.7	170.00	4,199.00
15	Jerome E. Ferrer	429.4	170.00	72,643.53
16	Michael Ginsborg	0.7	110.00	77.00
17	Bryan J. Gresham	361.9	175.00	63,291.76
18	Jeanette Haggas	2.0	100.00	200.00
19	Virginia Hancock	4.2	100.00	426.80
20	Ligeia Heagy	77.7	65.00	5,039.78
21	Frank Henry	0.4	50.00	20.00
22	Nathaniel H. Hunt	485.7	95.00	45,786.36
23	Ann Candler King	2.5	100.00	255.74
24	Terri Li	5.0	185.00	925.00
25	Racquel N. Lopez	161.8	130.00	20,817.38
26	Jason Nahm	25.3	125.00	3,162.50
27	Padraig J. O'Connor	492.4	130.00	63,288.00
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1	Phyllis O'Dea	67.5	180.00	12,242.27
2	Cindy Powers	1.2	150.00	180.00
3	Dawn Marie Taylor	1.4	175.00	245.00
4	Linda K. Vallin	6.6	150.00	986.04
5	Kinson Yee	1.8	130.00	234.00
6	Marlowe Griffiths (Librarian)	0.5	150.00	75.00
7	Steven P. Mackin (Librarian)	6.7	110.00	737.00
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9	<u>Litigation Support/Info. Services</u>			
10	Sharon B. Brown	21.5	170.00	3,655.00
11	Ipsita Chatterjee	67.0	65.00	4,355.00
12	Marilyn Christopher	284.0	65.00	18,397.85
13	Kevin Easton	250.0	65.00	16,250.00
14	Alex Glick	81.0	140.00	11,340.00
15	Anna Karasek	0.2	50.00	9.68
16	Mohamed Osman	159.4	150.00	23,910.00
17	Cheryl Valenzuela	14.6	65.00	949.00
18	Karla Webbe	26.3	185.00	4856.96

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20 Based on these hours and rates, the value of the legal services rendered by
21 Applicant during the period covered by this Application is \$3,628,622.51 in legal services.⁸

22 Applicant has also incurred and advanced costs in the sum of \$293,011.51 on
23 PG&E's behalf for which Howard, Rice requests reimbursement as follows:

25 _____
26 ⁸Applicant has written off \$134,806.23 in fees during the period covered by this
27 Application. This write-off was taken by Applicant in the exercise of its billing discretion to
28 ensure that PG&E was not charged, among other things, for amounts attributable to
duplication of effort, and to comply with the Court's orders regarding compensation in this
case.

1	Document Copying	\$99,357.66
	Meeting Expense	1,833.27
2	Messenger and Delivery Expense	10,558.33
	Recording or Filing Fees	207.85
3	Telecommunications	7,415.48
	Travel Expenses	9,044.78
4	Reporter's Transcripts	5,732.00
	Postage	9,349.31
5	Computerized Research	129,467.65
	Outgoing Facsimile	<u>20,045.18</u>
6		\$293,011.51
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9 Attached as Exhibit "C" is a description of Howard, Rice's expense policies
10 which, except as discussed below, are consistent with the Guidelines. Applicant has written
11 off \$118,737.89 in expenses incurred in order to be in compliance with the Guidelines.⁹

12 Applicant customarily charges its clients \$1.00 per page for outgoing facsimiles
13 but does not charge for incoming facsimiles. Applicant's accounting and billing systems are
14 set up accordingly. Applicant seeks recovery of its outgoing facsimile charges at the rate of
15 \$0.20 per page for the period covered by this Application, but seeks no recovery for
16 incoming facsimile charges. Applicant believes that such compensation is appropriate in
17 view of its customary accounting and billing practices. Otherwise, if Applicant were unable
18 to recover any compensation for its outgoing facsimile charges (while not obtaining any
19 compensation for incoming facsimile charges), it would be unfairly penalized because of its
20 customary accounting and billing practices. Such a result would be particularly unfair in
21 view of the relatively large amount of faxing which was mandated by (1) the exigencies of
22 several matters included in this Application (e.g., the notices regarding many QF matters
23 were required to be done by facsimile), and (2) the need to serve by facsimile a large volume
24 of relevant documents on a group of creditors (primarily QFs) who were actively involved in

25 _____
26 ⁹Applicant does not seek reimbursement for costs incurred for word processing
27 services, clerical and secretarial overtime expenses, certain fax charges (as explained in
28 more detail in the text), meals and various "extraordinary expenses" not permitted by the
Guidelines, which together aggregate \$118,737.89. Accordingly, Applicant has written off
\$118,737.89 in expenses incurred by Applicant on behalf of the Debtor during this period.

1 such matters. Although, for similar reasons, Applicant also *received* a large amount of
2 facsimiles during the period covered by this Application, because Applicant's accounting
3 and billing systems are not set up to capture such charges, Applicant does not seek recovery
4 for incoming facsimile charges. Accordingly, Applicant requests that the Court approve
5 recovery for outgoing facsimile charges, calculated at the rate of \$0.20 per page (consistent
6 with the amount allowed for incoming facsimiles under the Guidelines), an 80% reduction
7 from the rate Applicant customarily charges its clients for outgoing facsimiles.

8 Accordingly, the aggregate value of services rendered and costs advanced during
9 the period covered by this Application (net of write-offs) is \$3,921,634.02.

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

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

14 WHEREFORE, Howard, Rice requests that it be allowed total compensation of
15 \$3,921,634.02 for services rendered and reimbursement of expenses for the period of August
16 1, 2001 through November 30, 2001 (comprised of \$3,628,622.51 in fees for services
17 rendered and \$293,011.51 in costs advanced on behalf of the Debtor).

18 DATED: January 14, 2002.

19 Respectfully,

20 HOWARD, RICE, NEMEROVSKI, CANADY,
21 FALK & RABKIN
22 A Professional Corporation

23 By: Janet A. Nexon
24 JANET A. NEXON

25 Attorneys for Debtor and Debtor in Possession
26 PACIFIC GAS AND ELECTRIC COMPANY
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CERTIFICATION

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

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

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

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

26 5. The compensation and expense reimbursement requested in the Application
27 are billed at rates, and in accordance with practices, no less favorable than those customarily
28 employed by the Howard, Rice firm, and generally accepted by the Howard, Rice firm's

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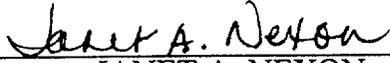
6. No agreement or understanding exists between Applicant and any other person or entity for a division of the compensation sought herein.

7. Attached to the Application as Exhibit D is a true and correct copy of a letter dated January 14, 2002 from the Howard, Rice firm (under my signature) to the Debtor's designated responsible individual for this Chapter 11 case, advising the Debtor of its review and objection rights and responsibilities pursuant to the Guidelines. To the best of my knowledge, information and belief, such letter was transmitted by hand delivery on January 14, 2002.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. This declaration was executed in San Francisco, California on January 14, 2002.

Dated: January 14, 2002.

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JANET A. NEXON