

1 JAMES L. LOPES (No. 63678)
2 JANET A. NEXON (No. 104747)
3 JULIE B. LANDAU (No. 162038)
4 HOWARD, RICE, NEMEROVSKI, CANADY,
5 FALK & RABKIN
6 A Professional Corporation
7 Three Embarcadero Center, 7th Floor
8 San Francisco, California 94111-4065
9 Telephone: 415/434-1600
10 Facsimile: 415/217-5910

50-275/373

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

13 UNITED STATES BANKRUPTCY COURT
14 NORTHERN DISTRICT OF CALIFORNIA
15 SAN FRANCISCO DIVISION

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

21 Case No. 01-30923 DM
22 Chapter 11 Case
23 Date: August 12, 2002
24 Time: 9:30 a.m.
25 Place: 235 Pine Street, 22nd Floor
26 San Francisco, California

27 NOTICE OF MOTION AND MOTION FOR AUTHORITY TO
28 INCUR INFORMATION TECHNOLOGY CONSULTING EXPENSES;
MEMORANDUM OF POINTS AND AUTHORITIES
IN SUPPORT THEREOF

[SUPPORTING DECLARATIONS OF MARTIN HUNT,
LANCE MAEDA, TERENCE GOODELL AND
STEPHANIE MAGGARD FILED SEPARATELY]

29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100
101
102
103
104
105
106
107
108
109
110
111
112
113
114
115
116
117
118
119
120
121
122
123
124
125
126
127
128
129
130
131
132
133
134
135
136
137
138
139
140
141
142
143
144
145
146
147
148
149
150
151
152
153
154
155
156
157
158
159
160
161
162
163
164
165
166
167
168
169
170
171
172
173
174
175
176
177
178
179
180
181
182
183
184
185
186
187
188
189
190
191
192
193
194
195
196
197
198
199
200
201
202
203
204
205
206
207
208
209
210
211
212
213
214
215
216
217
218
219
220
221
222
223
224
225
226
227
228
229
230
231
232
233
234
235
236
237
238
239
240
241
242
243
244
245
246
247
248
249
250
251
252
253
254
255
256
257
258
259
260
261
262
263
264
265
266
267
268
269
270
271
272
273
274
275
276
277
278
279
280
281
282
283
284
285
286
287
288
289
290
291
292
293
294
295
296
297
298
299
300
301
302
303
304
305
306
307
308
309
310
311
312
313
314
315
316
317
318
319
320
321
322
323
324
325
326
327
328
329
330
331
332
333
334
335
336
337
338
339
340
341
342
343
344
345
346
347
348
349
350
351
352
353
354
355
356
357
358
359
360
361
362
363
364
365
366
367
368
369
370
371
372
373
374
375
376
377
378
379
380
381
382
383
384
385
386
387
388
389
390
391
392
393
394
395
396
397
398
399
400
401
402
403
404
405
406
407
408
409
410
411
412
413
414
415
416
417
418
419
420
421
422
423
424
425
426
427
428
429
430
431
432
433
434
435
436
437
438
439
440
441
442
443
444
445
446
447
448
449
450
451
452
453
454
455
456
457
458
459
460
461
462
463
464
465
466
467
468
469
470
471
472
473
474
475
476
477
478
479
480
481
482
483
484
485
486
487
488
489
490
491
492
493
494
495
496
497
498
499
500
501
502
503
504
505
506
507
508
509
510
511
512
513
514
515
516
517
518
519
520
521
522
523
524
525
526
527
528
529
530
531
532
533
534
535
536
537
538
539
540
541
542
543
544
545
546
547
548
549
550
551
552
553
554
555
556
557
558
559
560
561
562
563
564
565
566
567
568
569
570
571
572
573
574
575
576
577
578
579
580
581
582
583
584
585
586
587
588
589
590
591
592
593
594
595
596
597
598
599
600
601
602
603
604
605
606
607
608
609
610
611
612
613
614
615
616
617
618
619
620
621
622
623
624
625
626
627
628
629
630
631
632
633
634
635
636
637
638
639
640
641
642
643
644
645
646
647
648
649
650
651
652
653
654
655
656
657
658
659
660
661
662
663
664
665
666
667
668
669
670
671
672
673
674
675
676
677
678
679
680
681
682
683
684
685
686
687
688
689
690
691
692
693
694
695
696
697
698
699
700
701
702
703
704
705
706
707
708
709
710
711
712
713
714
715
716
717
718
719
720
721
722
723
724
725
726
727
728
729
730
731
732
733
734
735
736
737
738
739
740
741
742
743
744
745
746
747
748
749
750
751
752
753
754
755
756
757
758
759
760
761
762
763
764
765
766
767
768
769
770
771
772
773
774
775
776
777
778
779
780
781
782
783
784
785
786
787
788
789
790
791
792
793
794
795
796
797
798
799
800
801
802
803
804
805
806
807
808
809
810
811
812
813
814
815
816
817
818
819
820
821
822
823
824
825
826
827
828
829
830
831
832
833
834
835
836
837
838
839
840
841
842
843
844
845
846
847
848
849
850
851
852
853
854
855
856
857
858
859
860
861
862
863
864
865
866
867
868
869
870
871
872
873
874
875
876
877
878
879
880
881
882
883
884
885
886
887
888
889
890
891
892
893
894
895
896
897
898
899
900
901
902
903
904
905
906
907
908
909
910
911
912
913
914
915
916
917
918
919
920
921
922
923
924
925
926
927
928
929
930
931
932
933
934
935
936
937
938
939
940
941
942
943
944
945
946
947
948
949
950
951
952
953
954
955
956
957
958
959
960
961
962
963
964
965
966
967
968
969
970
971
972
973
974
975
976
977
978
979
980
981
982
983
984
985
986
987
988
989
990
991
992
993
994
995
996
997
998
999
1000

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

TABLE OF CONTENTS

	Page
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
NOTICE OF MOTION AND MOTION	1
MEMORANDUM OF POINTS AND AUTHORITIES	1
I. FACTUAL BACKGROUND	2
A. Summary of Information Technology Projects and Costs.	3
B. Description of IT Equipment and IT Applications Project.	4
1. IT Equipment Project.	4
2. IT Applications Project: Applications to be Shared by the New Entities.	4
a. Internet Applications.	5
b. Intranet Applications.	5
c. Human Resources Applications.	5
d. Building & Land Services Applications.	5
e. Safety, Health and Claims Applications.	6
f. Capital Accounting Applications.	6
g. Other Miscellaneous Applications.	6
3. Applications for Electric Generation LLC.	6
a. Early Warning System Backup.	7
b. Master Power Purchase and Sale Agreement.	7
4. Applications for ETrans LLC.	7
a. Applications related to Billing & Settlements.	7
b. Customer Service Applications.	8
5. Applications for GTrans LLC.	8
a. Gas Billing Systems.	8
b. Gas Transactions Systems.	9
6. Applications for PG&E as Reorganized Debtor.	9
C. Description of Consultants and Breakdown of Costs.	9

TABLE OF CONTENTS

	Page
1.	IT Equipment Project (\$210,000). 10
2.	IT Applications Project - Shared Applications. 10
a.	Business Analysts (\$486,000). 10
b.	Content Coordinator and Content Migrators (\$325,000). 10
c.	Content Developers (\$258,000). 11
d.	Project Manager for Miscellaneous Applications (\$125,000). 11
e.	Senior Project Manager and Project Support Analysts (\$300,000). 11
f.	Systems Analysts (\$1,229,000). 11
g.	Web Administrator and Security Specialists (\$110,000). 11
h.	Technical Writer (\$50,000). 12
i.	Administrative Assistant (\$48,000). 12
j.	Business Analyst (\$65,000). 12
k.	Project Manager (\$120,000). 12
l.	Business Analysts (\$350,000). 12
3.	IT Consultants for Gen Application Projects. 12
a.	Application Developers and Technical Writers (\$649,000). 13
b.	Telecommunications Engineer (\$25,000). 13
4.	IT Consultants for ETrans Application Projects (\$928,000). 13
5.	IT Consultants for GTrans Application Projects. 13
a.	Systems Analysts/Programmers (\$350,000). 13
b.	Business Analyst/Systems Analyst (\$250,000). 14
c.	Systems Analyst (\$100,000). 14
d.	Programmers (\$200,000). 14

TABLE OF CONTENTS

	Page
e. Application Developers (\$100,000).	14
6. IT Consultants for PG&E Application Projects (\$32,400).	15
D. Leased Space for the IT Equipment and IT Applications Projects.	15
II. THE IT CONSULTING AND LEASE COSTS SHOULD BE APPROVED PURSUANT TO SECTION 363(b)(1) OF THE BANKRUPTCY CODE	16
CONCLUSION	18

HOWARD
RICE
NEMEROVSKI
CANADY
BALK
& RAEBIN

A Professional Corporation

TABLE OF AUTHORITIES

Page(s)

Cases

1		
2		
3		
4		
5	<u>Committee of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.)</u> , 722	
6	F.2d 1063 (2d Cir. 1983)	16
7	<u>In re Montgomery Ward Holding Corp.</u> , 242 B.R. 147 (D. Del. 1999)	16
8	<u>Official Comm. of Subordinated Bondholders v. Integrated Res., Inc. (In re</u>	
9	<u>Integrated Res., Inc.)</u> , 147 B.R. 650 (S.D.N.Y. 1992)	17
10	<u>Smith v. Van Gorkom</u> , 488 A.2d 858 (Del. 1985)	17
11		
12		
13	<u>Stephens Indus., Inc. v. McClung</u> , 789 F.2d 386 (6th Cir. 1986)	16

Statutes

13	Bankruptcy Code	
14	§327(a)	16
15	§363(b)(1)	1, 16
16	§1107	2
17	§1108	2
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
	Bankruptcy Local Rules, Rule 9014-1(c)(2)	1

HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

I.

FACTUAL BACKGROUND¹

PG&E filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code on April 6, 2001. A trustee has not been appointed, and PG&E continues to function as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

PG&E, together with its parent corporation, PG&E Corporation, has proposed a Plan of Reorganization (as amended from time to time, the "Plan"), which has been sent to creditors for voting along with the Court-approved Disclosure Statement for the Plan. A Plan confirmation status conference has been set for August 1, 2002.

The Plan generally provides for the creation of three new companies, ETrans LLC, GTrans LLC and Electric Generation LLC (collectively, the "New Entities"), whereby PG&E will separate its operations into four lines of business based on PG&E's historical functions. Accordingly, the Reorganized Debtor will continue the retail gas and electric distribution business, ETrans LLC will operate the electric transmission business, GTrans LLC will operate the interstate gas transmission business, and Electric Generation LLC will operate the electric generation business.

As a result of the separation of the lines of business contemplated by the Plan, PG&E has been identifying various projects that require long lead-time for completion, such as the transfer of land rights, permits and franchises, human resources planning and information technology planning for the New Entities. Attached as Exhibit A to the Declaration of Stephanie Maggard ("Maggard Declaration"), filed herewith, is a summary of the motions filed by PG&E over the last several months in connection with these various Plan implementation projects, as well as a summary of anticipated Plan implementation motions that have not yet been filed. A description of the anticipated Plan implementation motions is also set forth in the Maggard Declaration at ¶5.

¹The evidentiary basis and support for the facts set forth in this Motion are contained in the Declarations of Martin Hunt (the "Hunt Declaration"), Lance Maeda ("Maeda Declaration") and Terry Goodell ("Goodell Declaration"), filed concurrently herewith.

1 A. Summary of Information Technology Projects and Costs.

2 As indicated in PG&E's Motion for Authority to Acquire Information
3 Technology Equipment, filed on June 12, 2002, the New Entities will require various
4 information technology ("IT") computer and network hardware, software and miscellaneous
5 components (collectively, the "IT Equipment") in order to support their business operations.
6 As described in Sections B and C below, PG&E seeks approval to utilize an IT consultant to
7 provide project management for the design, installation, configuration and testing of the IT
8 Equipment that will be necessary for the New Entities (collectively referred to as the "IT
9 Equipment Project"). In addition, as described in Sections B and C below, IT consultants
10 are required to implement (including installation, configuration and testing, among other
11 tasks) various IT applications² that will be necessary for the business operations of the New
12 Entities (collectively referred to as the "IT Applications Project"). The IT Applications
13 Project includes the process of replicating existing IT applications in use by PG&E for the
14 benefit of the New Entities and creating new IT applications where necessary.

15 While PG&E will utilize internal resources for the IT Equipment Project and IT
16 Applications Project, numerous outside consultants are required due to the volume of work
17 to be performed, the special expertise required and the short time period within which the
18 work must be completed.

19 The total estimated cost for the consulting work related to the IT Equipment
20 Project and the IT Applications Project is \$6,310,400 (the "Estimated Cost"). A breakdown
21 of the Estimated Cost is set forth in Section C below. The process by which PG&E has
22 estimated these costs is described in the Maeda Declaration at ¶8. The actual resources
23 required to complete each project may differ from the current estimates; therefore, to
24 effectively manage these projects, PG&E requires the flexibility to transfer resources
25 between the various projects described below. For example, certain projects may ultimately

26 _____
27 ²"IT Applications" generally means specialized business software that performs
28 customized functions.

1 require fewer resources than currently anticipated while other projects may require more
2 resources; thus, while this Motion may describe “four programmers” PG&E may ultimately
3 require only three programmers but need an additional technical writer, or a particular
4 consultant’s fee may exceed the estimate based on a project requiring more time than
5 currently estimated. Therefore, PG&E requests approval to incur up to (but not to exceed)
6 the Estimated Cost for the various projects described below provided that PG&E retains the
7 flexibility to adjust the consultant resources between and among the various projects.

8 In addition to the IT consulting expenses, PG&E also seeks authority to lease
9 office space on a month-to-month basis at a cost of \$76,700 per month (as described in
10 Section D below), to be utilized for the IT Equipment Project and IT Applications Project.

11
12 **B. Description of IT Equipment and IT Applications Project.**

13 This Section B describes the types of projects to be completed with the assistance
14 of IT consultants. Section C below describes the IT consultants who will perform the work
15 described in this Section B and a breakdown of costs related to the various consultants.

16 **1. IT Equipment Project.**

17 The IT Equipment Project includes the design, programming, configuration,
18 installation, and testing of the IT Equipment. An IT consultant will provide project
19 management for the IT Equipment Project, which requires a high level of both project
20 management and IT experience, in order to manage cost, schedule and risks associated with
21 this project. See Hunt Declaration, ¶¶3 and 4.

22 **2. IT Applications Project: Applications to be Shared by the New Entities.**³

23 Numerous IT consultants will work on different aspects of the IT Applications
24 Project. This section describes the work related to applications that will be shared by the
25 New Entities (Sections B.3 through B.6 below describe applications work that is specific to a
26 single New Entity or to the Reorganized Debtor).

27
28 ³The facts set forth in this Section B.2. are supported by the Maeda Declaration, ¶3.

1 a. Internet Applications. IT consultants will design and implement an Internet
2 site to support the business needs of the New Entities and will integrate all content and
3 applications for the Internet site. The site will enable customers of PG&E's gas pipelines to
4 continue to schedule and nominate gas online, allow the financial community and investors
5 easy access to financial and operational data, and provide the public with information on
6 important events involving the New Entities.

7 b. Intranet Applications. IT consultants will design and establish a single
8 Intranet for the New Entities. The Intranet will function as a centralized portal and
9 repository for accessing web-enabled applications and will provide employees with tools,
10 services and information needed for daily business operations, (e.g., timesheets; job bidding;
11 electric control systems; safety, health and claims information; and regulatory and
12 compliance information).

13 c. Human Resources Applications. IT consultants will create applications that
14 are critical to the human resource needs of the New Entities, and which are not covered by
15 the contract with PeopleSoft for implementation of the human resources management
16 system.⁴ In some cases, these applications will be replicated from existing PG&E
17 applications and the IT consultants will make any appropriate or necessary modifications in
18 order to adapt the applications for use by the New Entities. Examples of such applications
19 include Employee Assistance Program Tracking, Salary Planning/Market Data and the Test
20 Results Tracking Database.

21 d. Building & Land Services Applications. IT consultants will create
22 applications necessary to support building and land management for the New Entities; in
23 some cases, the consultants will replicate existing PG&E applications with appropriate
24 modifications. Examples of such applications include the Building and Land Inventory
25 System, the Building Department Job Tracking Database System and the Geographic

26 _____
27 ⁴PG&E previously obtained authority to incur expenses in connection with a consulting
28 contract with PeopleSoft, covering implementation of a human resources management
system for the New Entities.

HOWARD
RICE
NEMEROVSKI
CANADY
BALK
& RABKIN
A Professional Corporation

1 Information System (“GIS”). GIS is currently used extensively throughout PG&E. It is a
2 complex, multi-layered application that utilizes maps and data from a variety of sources.
3 The IT consultants will determine what data is needed by each of the New Entities, replicate
4 GIS for the New Entities and migrate the appropriate data from the existing GIS to the new
5 GIS for the New Entities.

6 e. Safety, Health and Claims Applications. PG&E’s Safety, Health and
7 Claims department (“SH&C”) uses a number of custom and packaged applications. The
8 New Entities will use an Application Service Provider (“ASP”)⁵ to provide and host the
9 necessary SH&C applications. An IT consultant will assist the New Entities in selecting the
10 ASP based on expertise, cost and ability to meet business requirements. In some cases, the
11 SH&C applications may need to be designed by the ASP or by IT consultants working with
12 the ASP.

13 f. Capital Accounting Applications. The New Entities will have substantial
14 capital assets after implementation of the Plan. IT consultants will implement applications
15 (including installation, customization and testing as needed) to manage the capital
16 accounting systems for the New Entities. Examples of the types of applications that may be
17 replicated and/or modified for use by the New Entities are: Accufile: AS109 Depreciation,
18 Ratemaking Deferred Tax Reserve, Tax Accrual and Tax Depreciation.

19 g. Other Miscellaneous Applications. IT consultants will implement (including
20 installation, customization and testing as needed) non-capital accounting, environmental and
21 other miscellaneous applications needed by the New Entities, including applications related
22 to credit verification, federal, state and local taxes, and risk management.

23 3. Applications for Electric Generation LLC.

24 The following applications are specific to Electric Generation LLC (“Gen”), the
25 New Entity that will carry on the electric generation line of business. See Maeda
26 Declaration, ¶4.

27 ⁵The ASP will be an external provider that will host the SH&C applications.
28

HOWARD
RICE
NEMEROWSKI
CANADY
BALK
& RABKIN
A Professional Corporation

1 a. Early Warning System Backup. The Early Warning System (“EWS”)
2 provides public notification of a nuclear event at the Diablo Canyon Power Plant. The EWS
3 Backup Control Station is used in the event that the Primary EWS Control Station, located at
4 the Emergency Operations Facility in San Luis Obispo, becomes inoperable. The EWS is a
5 key part of both the Diablo Canyon and San Luis Obispo County Emergency Plans. An IT
6 consultant will provide engineering support for the transfer of the existing EWS Backup
7 System to Gen.

8 b. Master Power Purchase and Sale Agreement. In connection with
9 implementation of the Plan, Gen and PG&E will enter into a long-term power sales
10 agreement, the Master Power Purchase and Sale Agreement.⁶ Under this agreement, new
11 settlement and billing systems must be developed, in order to meet Gen’s needs and to
12 comply with FERC rules. These new systems will require revisions to existing IT
13 applications and development of new IT applications related to electric generation and
14 billing, including applications related to data and information sharing, revisions to PG&E’s
15 existing systems and development of new business processes for scheduling and billing. IT
16 consultants will install, modify and test the business systems necessary for this project.

17 4. Applications for ETrans LLC.

18 The following applications are specific to ETrans LLC (“ETrans”), the New
19 Entity that will carry on the electric transmission line of business. See Goodell Declaration,
20 ¶3.

21 a. Applications related to Billing & Settlements. In connection with
22 implementation of the Plan, ETrans and PG&E will enter into an Electric Energy
23 Determination and Billing Agreement to handle billing and settlements for electric
24 transmission service provided by ETrans to PG&E. Implementing this agreement will
25 require revisions to existing IT applications and development of new IT applications related
26 to electric transmission service, including applications related to the transfer of meter data.

27 _____
28 ⁶This agreement is described in Section VI.F.1. of the Disclosure Statement.

1 IT consultants will design, develop, install and test the systems necessary to implement this
2 agreement.

3 b. Customer Service Applications. ETrans will need to implement a customer
4 information system to facilitate serving its customers. IT consultants will design, develop,
5 install and test the systems necessary to support ETrans' customer service requirements.

6 5. Applications for GTrans LLC.

7 The following applications are specific to GTrans LLC ("GTrans"), the New
8 Entity that will carry on the gas transmission line of business. See Maeda Declaration, ¶5.

9 a. Gas Billing Systems. Currently, PG&E bills and records the payments of
10 certain large gas customers and gas shippers as part of its portfolio of gas accounts. The bill
11 calculation is completed by the Advanced Billing Solutions ("ABS") system, a stand-alone
12 billing system for large industrial and commercial accounts, and transmitted to PG&E's
13 customer information system to produce a bill and record receivables. Upon separation of
14 the lines of business under the Plan, GTrans will acquire these large gas customers and gas
15 shippers. However, the ABS system will be retained by PG&E so that PG&E can continue
16 to bill complex distribution accounts. While GTrans will develop its own system for
17 performing the billing functions currently performed by ABS, this process may take up to
18 two years to complete. Therefore, in connection with implementation of the Plan, PG&E
19 and GTrans will enter into a Measure, Bill and Collect Agreement (the "GTrans
20 Agreement") to accommodate the billing needs of GTrans post-separation while GTrans
21 completes the development of an independent billing system.

22 Under the GTrans Agreement, PG&E will provide the following services to
23 GTrans: measure customer usage (i.e., meter reading), calculate customer bills, issue the
24 bills, process payments, provide information on customers whose accounts are delinquent,
25 and report revenues to meet regulatory and other requirements. In order for PG&E to
26 provide these services to GTrans, separate IT applications will need to be developed to
27 support data retrieval, bill calculation, bill presentment, collection efforts, Electronic Data
28 Interchange protocols for billing and payment processing, and revenue reporting. IT

1 consultants will analyze GTrans' business needs and will develop applications that will
2 perform the billing functions for GTrans that are currently performed by the ABS system.

3 b. Gas Transactions Systems. Currently, the scheduling process for the gas
4 pipeline system is managed in a single computer application, the Gas Transactions System
5 ("GTS"). GTS tracks the amount of gas entering PG&E's system from different sources and
6 schedules it for delivery at various points in the system for ultimate use by customers. Upon
7 separation of the lines of business under the Plan, the GTS will be transferred to GTrans.
8 However, PG&E will still require certain functions of the GTS for gas distribution purposes
9 until such time as PG&E is able to develop a new system that meets its scheduling
10 requirements post-separation. The GTrans Agreement, in addition to the billing services
11 outlined above, provides for GTrans to perform tracking and scheduling services for PG&E.
12 IT consultants will analyze the business needs of both PG&E and GTrans in their use of
13 GTS, and then modify the GTS so that it can track PG&E's and GTrans' gas information
14 separately, create separate gas delivery schedules, and prepare separate reports. The IT
15 consultants will also modify the interfaces between GTS and other systems that rely on the
16 information collected by GTS, so that these systems can receive the appropriate information
17 from GTS post-separation.

18 6. Applications for PG&E as Reorganized Debtor.

19 After implementation of the Plan, PG&E will require approximately 16
20 applications that are now provided by PG&E's parent corporation, PG&E Corporation,
21 including applications related to banking and money management, tax and legal compliance
22 and business ethics. IT consultants will install, modify as necessary and test the applications
23 needed by PG&E after implementation of the Plan. See Maeda Declaration, ¶16.

24
25 C. Description of Consultants and Breakdown of Costs.

26 PG&E intends to utilize various types of IT consultants on a temporary basis
27 through the following staffing agencies and consulting firms: Corestaff Services, Inc.; Tom
28 Walsh, Inc.; Churchill Benefit, dba Yurcor; AG Consulting, a division of ADP, Inc.;

1 Millennium Consulting; Federal Signal Corporation; Blackstone Technology Group; TMP,
2 Worldwide; Resource Connection; Thinknicity; and Software Consulting Group. PG&E's
3 standard contractual provisions in place with these agencies and firms do not guarantee
4 future work or any minimum amount of revenue. PG&E also maintains the right to
5 terminate the work at any time without cause, in which case PG&E is liable only for work
6 performed to the date of termination plus costs reasonably incurred by the consultant in
7 terminating any work in progress.

8 Included parenthetically in each heading below is the cost estimate for each
9 category of consultants to be used for the various projects.

10 1. IT Equipment Project (\$210,000).

11 A senior project manager will be hired through Millennium Consulting, a
12 consulting firm specializing in IT projects, to coordinate, supervise, and track the IT
13 Equipment Project. Specifically, the senior project manager will (i) monitor all aspects of
14 the IT Equipment Project for adherence to cost, schedule and technical performance criteria;
15 (ii) ensure consistency in the reporting, work product and processes of the IT Equipment
16 Project; and (iii) facilitate and coordinate the IT Equipment Project to ensure that the project
17 is successful in meeting the New Entities' requirements. See Hunt Declaration, ¶¶5 and 6.

18 2. IT Applications Project - Shared Applications.⁷

19 a. Business Analysts (\$486,000). Seven business analysts will be hired through
20 Corestaff Services, Inc. ("Corestaff"), a staffing agency, to study and define the New
21 Entities' business requirements and to describe the computer codes and business rules that
22 will be necessary to meet these requirements.

23 b. Content Coordinator and Content Migrators (\$325,000). A content
24 coordinator and six content migrators will be hired through Corestaff to help provide the
25 content for the New Entities' Internet site and Intranet. These consultants will study
26 PG&E's existing Internet site and Intranet, determine what portions of the existing content

27 _____
28 ⁷The facts set forth in this Section C.2. are supported by the Maeda Declaration, ¶9.

1 can be used by the New Entities, arrange for migration of data to the New Entities and
2 document remaining content to be obtained.

3 c. Content Developers (\$258,000). Three content developers will be hired
4 through Corestaff to work with the content coordinator and migrators (described in
5 paragraph b above) to develop the necessary content structure for the New Entities' Internet
6 site and intranet, using such programming tools as HTML (hypertext markup language) and
7 java script. These consultants will also be responsible for data migration and intranet testing
8 and support.

9 d. Project Manager for Miscellaneous Applications (\$125,000). A project
10 manager will be hired through Corestaff to manage the replication, development and
11 implementation of the accounting, environmental and other shared applications needed by
12 the New Entities, including business and technical analysis related thereto.

13 e. Senior Project Manager and Project Support Analysts (\$300,000). A senior
14 project manager and two project support analysts will be hired through Corestaff. The
15 senior project manager will coordinate, track and report with respect to the following
16 applications: Internet, Intranet, human resources, building and land services, and SH&C.
17 The project support analysts will support the senior project manager.

18 f. Systems Analysts (\$1,229,000). 14 systems analysts will be hired through
19 Corestaff to perform a variety of tasks needed as part of the IT Applications Project,
20 including designing technical solutions, developing computer interfaces, replicating
21 applications as needed by the New Entities, migrating data to the New Entities and
22 modifying and testing applications. The systems analysts will also develop web-based
23 applications and computer interfaces for the SAP system (the system that includes
24 accounting and purchasing functions). The systems analysts will also develop a new
25 franchise fee system for the New Entities.

26 g. Web Administrator and Security Specialists (\$110,000). Three specialists in
27 web administration and web security will be hired through Corestaff and will work on the
28 Internet site and Intranet, in the specific areas of hardware and software analysis, setup and

1 configuration, web security and graphic and multimedia design.

2 h. Technical Writer (\$50,000). A technical writer will be hired through
3 Corestaff and will provide the technical documentation for the IT Applications Project.

4 i. Administrative Assistant (\$48,000). An administrative assistant will be hired
5 through Corestaff to provide administrative assistance in the area of human resources,
6 including the PeopleSoft-related work.

7 j. Business Analyst (\$65,000). A business analyst will be hired through Tom
8 Walsh, Inc., a staffing agency that specializes in SH&C work, to provide support specifically
9 with the SH&C application project, including research regarding SH&C requirements and
10 ASPs available to provide SH&C applications to the New Entities, and assistance with the
11 selection of a SH&C vendor.

12 k. Project Manager (\$120,000). A project manager will be hired through
13 Yurcor, a staffing agency specializing in accounting applications, to manage the work
14 related to the capital accounting applications, including: (i) monitoring all aspects of the
15 capital accounting applications work for adherence to cost, schedule and technical
16 performance criteria; (ii) ensuring consistency in the reporting, work product and processes
17 of the capital accounting applications work; and (iii) ensuring that the capital accounting
18 applications will meet the needs of the New Entities.

19 l. Business Analysts (\$350,000). Five business analysts will be hired through
20 AG Consulting, a staffing agency specializing in human resource work, to gather, define and
21 document specific human resources applications requirements for the New Entities. These
22 consultants will prepare reports on job bidding and bargaining unit requirements as well as
23 requirements for the Benefits Service Center.⁸

24 3. IT Consultants for Gen Application Projects.

25 The following IT consultants will provide assistance related to the Gen
26

27 ⁸The Benefits Service Center operates as a resource for PG&E employees for all
28 benefit-related matters, including, e.g., insurance, health and retirement benefits.

1 application projects described in Section B.3. above. See Maeda Declaration, ¶10.

2 a. Application Developers and Technical Writers (\$649,000). Six application
3 developers and/or technical writers will be hired through Corestaff to develop applications,
4 develop test plans, perform quality assurance, document programming codes and prepare
5 user manuals related to the Master Power Purchase and Sale Agreement.

6 b. Telecommunications Engineer (\$25,000). A telecommunications engineer
7 will be hired through Federal Signal Corporation, a company specializing in emergency
8 warning siren control systems, to provide engineering support for the EWS Backup System.

9 4. IT Consultants for ETrans Application Projects (\$928,000).

10 The following IT consultants will provide assistance related to the ETrans
11 application projects described in Section B.4. above. See Goodell Declaration, ¶¶4 and 5.

12 PG&E will hire seven application and/or database developers and an associate
13 director who will supervise their work through Blackstone Technology Group, an IT
14 consulting firm specializing in the utility business. The application and database developers
15 will design and develop customer information, billing and settlement systems. The scope of
16 work includes developing system designs, applications, and test plans; performing quality
17 assurance; documenting programming codes; and preparing user manuals. The associate
18 director will act as supervisor; he or she will perform such supervisory tasks as monitoring
19 the quality of the work, keeping it on schedule, and making regular reports on the status of
20 the work.⁹

21 5. IT Consultants for GTrans Application Projects.

22 The following IT consultants will provide assistance related to the GTrans
23 application projects described in Section B.5. above. See Maeda Declaration, ¶11.

24 a. Systems Analysts/Programmers (\$350,000). Three systems analysts and
25 programmers will be hired through Corestaff to define and develop technical specifications

26 _____
27 ⁹Certain Blackstone consultants began work on this project in June 2002 to assist
28 PG&E in determining the scope of work to be performed. No payments have been made to
Blackstone for this work pending Court approval.

1 for applications that support data retrieval, bill calculation, bill presentment, collection,
2 Electronic Data Interchange protocols for billing and payment processing and revenue
3 reporting. This work will enable PG&E to provide the gas billing services to GTrans (as
4 described in Section B.5. above) during the transition period while GTrans develops its
5 separate billing system.

6 b. Business Analyst/Systems Analyst (\$250,000). A business analyst and a
7 systems analyst will be hired through TMP, Worldwide, a staffing agency specializing in IT
8 functions. These analysts will define and document business requirements and describe
9 functional specifications for programming requirements related to gas billing services.
10 These analysts will also perform quality assurance and evaluate programming changes to
11 ensure that business specifications have been met.

12 c. Systems Analyst (\$100,000). A systems analyst will be hired through
13 Resource Connection, a staffing agency specializing in IT functions, to define the
14 requirements for data interfaces (transmittal of data between IT systems) used for gas billing
15 and gas revenue reporting and to describe and document the business rules that will be
16 necessary to meet these requirements:

17 d. Programmers (\$200,000). Two programmers will be hired, one through
18 Thinknicity, LLC and one through Software Consulting Group, both staffing agencies
19 specializing in IT functions. The programmers will develop, modify and test programming
20 changes to various systems to support revenue reporting by PG&E and GTrans. As
21 described in Section B.5. above, revenue reporting is one of the services that GTrans will
22 provide to PG&E pursuant to the GTrans Agreement.

23 e. Application Developers (\$100,000). Two application developers will be hired
24 through Blackstone Technology Group, an IT consulting firm specializing in the utility
25 business, to make modifications to the GTS in order to track PG&E and GTrans' gas
26 information and schedules separately. Additionally, the application developers will develop
27 new reports of gas volumes and programming modifications for the data interfaces between
28 GTS and other systems. This will enable GTrans to perform tracking and scheduling

1 services for PG&E pursuant to the GTrans Agreement as described in Section B.5. above.

2 6. IT Consultants for PG&E Application Projects (\$32,400).

3 The following IT consultants will provide assistance related to the PG&E
4 application projects described in Section B.6 above. These consultants will be hired through
5 Corestaff and include two technical writers and two programmer analysts. The technical
6 writers will update and prepare documentation for changes to software applications, backup
7 and restore procedures, and user manuals. The programmer analysts will install, configure
8 and test servers and computers to run the various applications that will be migrated to
9 PG&E. See Maeda Declaration, ¶12.

10
11 D. Leased Space for the IT Equipment and IT Applications Projects.

12 PG&E also seeks authority to sublease office space for the IT Equipment Project
13 and IT Applications Project. This space will be sublet from PG&E's affiliate, PG&E
14 National Energy Group ("NEG"), which has leased several floors at 345 California Street
15 and no longer requires one of the floors. NEG will therefore sublet the 23rd floor (16,935
16 square feet) to PG&E at its cost on a month-to-month basis (the "Sublease"). The monthly
17 cost for the Sublease will be \$76,700, which includes utilities, taxes and office furniture.
18 PG&E believes that the sublease is reasonable, based on the following factors: (i) PG&E did
19 not incur any expenses in locating the space and negotiating the Sublease; (ii) the space is
20 completely built out with tenant improvements, including cabling, furniture, office
21 equipment (e.g., copiers, fax machines and telephones) and conference space; (iii) the space
22 is conveniently located near PG&E's other offices in downtown San Francisco; and
23 (iv) PG&E retains the ability to terminate the Sublease at any time on 30 days' notice. See
24 Maggard Declaration, ¶3.

25 The office space will be utilized by the various individuals working on the IT
26 Equipment Project and IT Applications Project, and the IT Equipment will be installed in
27 this space as well. PG&E seeks authority to incur the monthly Sublease expense beginning
28 August 1, 2002 and continuing to the Effective Date under the Plan.

1 II.

2 **THE IT CONSULTING AND LEASE COSTS SHOULD BE**
3 **APPROVED PURSUANT TO SECTION 363(b)(1) OF THE**
4 **BANKRUPTCY CODE**

5 PG&E seeks approval for the IT consulting expenses and Sublease costs set forth
6 above as a use of estate property that is outside of the ordinary course of business under
7 Bankruptcy Code Section 363(b)(1). Since the IT Equipment Project and IT Applications
8 Projects are related to the implementation of the Plan, PG&E believes that the purpose and
9 scope of the expenditure may be characterized as outside of the ordinary course of business
10 and therefore requires Court approval.¹⁰

11 The Court has considerable discretion in approving a request pursuant to Section
12 363(b)(1) of the Bankruptcy Code (“[t]he trustee, after notice and a hearing, may use, sell or
13 lease, other than in the ordinary course of business, property of the estate”). See In re
14 Montgomery Ward Holding Corp., 242 B.R. 147, 153 (D. Del. 1999) (affirming the
15 bankruptcy court’s decision to approve expenditure for employee incentive programs, noting
16 that bankruptcy court has considerable discretion in approving a Section 363(b) motion).

17 In determining whether to authorize a transaction under Section 363(b)(1), courts
18 require a debtor to show that a sound business purpose justifies such actions, applying the
19 business judgment test. See, e.g., Stephens Indus., Inc. v. McClung, 789 F.2d 386, 389-90
20 (6th Cir. 1986); Committee of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.), 722
21 F.2d 1063, 1071 (2d Cir. 1983); see also 3 Lawrence P. King, Collier on Bankruptcy
22 ¶363.02[1][g] (15th ed. rev. 1998).

23 Once the debtor has articulated a rational business justification, a presumption
24 attaches that the decision was made “on an informed basis, in good faith and in the honest
25 belief that the action taken was in the best interest of the [debtor].” See, e.g., Official

26 ¹⁰PG&E believes that the consultants described above should not be considered
27 “professional persons” requiring approval under Bankruptcy Code Section 327(a). This is
28 due both to the nature of the services to be provided and to the consultants’ limited role in
connection with PG&E’s reorganization proceeding.

1 Comm. of Subordinated Bondholders v. Integrated Res., Inc. (In re Integrated Res., Inc.),
2 147 B.R. 650, 656 (S.D.N.Y. 1992) (citing Smith v. Van Gorkom, 488 A.2d 858, 872 (Del.
3 1985)).

4 Here, sound business justifications exist for approval of the consulting work
5 related to the IT Equipment Project and IT Applications Project and related lease costs.
6 PG&E does not have sufficient capacity or skills in-house to perform and complete the work
7 without the assistance of the IT consultants. PG&E believes that the work is necessary and
8 must be completed in advance of the Effective Date under the Plan in order for the New
9 Entities to commence business operations. Also, PG&E is solvent and has sufficient cash to
10 pay the expenses described herein without causing any detriment to its creditors.¹¹

11 PG&E estimates that it could take up to six months to complete the work related
12 to the IT Equipment Project and the IT Applications Project. Therefore, the work cannot be
13 delayed until after confirmation of the Plan without jeopardizing PG&E's ability to timely
14 implement the Plan.¹²

15 The Sublease expense is a necessary component of the IT Applications Project
16 and IT Equipment Project and is reasonable under the circumstances, particularly since the
17 Sublease is terminable on 30 days' notice. In addition, PG&E has already obtained a Court
18 order authorizing this type of lease without further approval pursuant to the Order entered on
19 October 15, 2001 (the "Order") approving PG&E's Motion for Authority . . . to Enter into
20 Lease, License and Permit Agreements for the Use of Third-Party Property within Specified
21 Parameters, filed on September 5, 2001.

22
23
24
25 ¹¹As reflected in PG&E's May 2002 Monthly Operating Report, PG&E held more than
26 \$4.2 billion in cash reserves as of May 31, 2002.

27 ¹²As set forth in the Maeda Declaration at ¶14, four consultants began limited work as
28 of July 1, 2002 on projects relating to human resources and Gen applications. No payments
have been made to these consultants for the work performed pending Court approval.

1 The Sublease is well within the dollar parameters for leases authorized by the
2 Order and therefore does not require any further Court approval.¹³ Nonetheless, out of an
3 abundance of caution, PG&E is including the Sublease in this Motion because the office
4 space will be used for the IT consulting work that is covered by this Motion.

5
6 **CONCLUSION**

7 For all of the foregoing reasons, PG&E respectfully requests that the Court
8 approve the costs described above related to consulting work and the lease, and grant such
9 other and further relief as may be just and appropriate.

10 DATED: July 23, 2002

11 HOWARD, RICE, NEMEROVSKI, CANADY,
12 FALK & RABKIN
A Professional Corporation

13 By: Julie Landau
14 JULIE B. LANDAU

15 Attorneys for Debtor and Debtor in Possession
PACIFIC GAS AND ELECTRIC COMPANY

16 WD 072302/F-1419905/Y7/1011116/v1

17
18
19
20
21
22
23
24
25
26
27
28
HOWARD
RICE
NEMEROVSKI
CANADY
FALK
& RABKIN
A Professional Corporation

¹³Under the Order, no notice or approval is required for PG&E to enter into real property lease transactions where the payment obligation is under \$1 million annually and the aggregate obligations over the life of the lease are less than \$10 million.