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9 Accountants and Financial Advisors for Official
10 Committee of Unsecured Creditors

11 UNITED STATES BANKRUPTCY COURT
12 NORTHERN DISTRICT OF CALIFORNIA
13 SAN FRANCISCO DIVISION

14 In re

15 PACIFIC GAS AND ELECTRIC
16 COMPANY, a California corporation,

17 Debtor.

18 Case No. SF 01-30923 DM
19 Chapter 11

20 NINTH INTERIM AND FINAL
21 APPLICATION OF FTI CONSULTING
22 INC. FOR ALLOWANCE AND PAYMENT
23 OF COMPENSATION AND
24 REIMBURSEMENT OF EXPENSES
25 (APRIL 11, 2001 THROUGH APRIL 12,
26 2004); DECLARATION OF THOMAS E.
27 LUMSDEN IN SUPPORT THEREOF

28 Hearing:

Date: September 14, 2004
Time: 1:30 PM
Place: 235 Pine Street, 22nd Floor
San Francisco, CA

FILED

JUL 12 2004

UNITED STATES BANKRUPTCY COURT
SAN FRANCISCO, CA

50-215/323

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

4 As previously disclosed to this Court through the Eighth Supplemental Declaration of
5 Mr. Thomas E. Lumsden and FTI's retention pleadings, on August 30, 2002 (the "Closing
6 Date"), the Business Recovery Services practice (the "BRS Practice") of
7 PricewaterhouseCoopers LLP ("PwC") was transferred to FTI Consulting, Inc. ("FTI"). This
8 transfer included the business, receivables and employees comprising the BRS Practice of PwC.
9 Effective upon the Closing Date, Mr. Lumsden, as well as all of the BRS Practice professionals
10 working on behalf of the Committee in this matter became employees of FTI.

11 As disclosed in FTI's retention pleadings filed on September 27, 2002 and approved by
12 the Court on October 31, 2002, *nunc pro tunc* to September 1, 2002, FTI, as successor to the
13 BRS Practice, will be responsible for filing appropriate fee applications regarding previously
14 unbilled services provided by PricewaterhouseCoopers LLP ("PwC") prior to the Closing Date.
15 Further, FTI is entitled to all payments to be made by the Debtors after the Closing Date for any
16 outstanding receivables related to BRS services. FTI assumes the responsibility for filing a
17 single, final fee application for pre-Closing Date BRS services and post-Closing Date FTI
18 services at the conclusion of these proceedings. As such, as outlined above, FTI respectively
19 submits this Final Fee Application for services rendered by FTI for the period from April 11,
20 2001 through April 12, 2004 to the Official Committee of Unsecured Creditors (the
21 "Committee").

22 I.

23 INTRODUCTION

24 This is the Final long-form application filed by FTI for approval of compensation and
25 reimbursement of related expenses for services rendered on behalf of the Committee during
26 PG&E's chapter 11 case. FTI submits this Final Application in accordance with Bankruptcy
27 Code sections 330 and 331, Rule 2016 of the Federal Rules of Bankruptcy Procedure (the
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BKRP01

1 "Bankruptcy Rules"), the Office of the United States Trustee for the Northern District of
2 California Guidelines (the "UST Guidelines"), and the United States Bankruptcy Court Northern
3 District of California Guidelines for Compensation and Expense Reimbursement of Professionals
4 and Trustee ("Court Guidelines"). Through this Final Application, FTI seeks an order (i)
5 allowing interim compensation of \$569,657 in fees and \$5,317 in expenses for a total of
6 \$574,974 for services rendered by FTI on behalf of the Committee during the period December
7 1, 2003 through and including April 12, 2004 ("Ninth Interim Period"); (ii) approval and
8 allowance of \$7,917,497 in fees and \$288,229 in expenses incurred for services rendered by FTI
9 on behalf of the Committee during the period April 11, 2001 through and including April 12,
10 2004 and (iii) allowing FTI to be reimbursed for certain fees and expenses that were previously
11 unbilled and/or reduced per the Court's Memorandum Decision Regarding Applications for
12 Interim Compensation of Professionals filed December 12, 2001 ("Unbilled Fees") in the amount
13 of \$144,149. Accordingly, FTI seeks final allowance and payment of a total of \$8,349,875 for
14 services rendered and reimbursement of costs and expenses incurred during the Final Application
15 Period.

16 During the Ninth Interim Period, FTI professionals spent a total of 1,107.6 hours
17 rendering services to the Committee in connection with the PG&E bankruptcy case. FTI also
18 incurred \$5,317 in costs and expenses in connection with those services, for which FTI is
19 requesting reimbursement. To date, PG&E has made payments for fees and expenses in the
20 amount of \$8,120,285. These amounts reflect the cover sheet and interim fee applications for
21 April 11, 2001 through April 12, 2004. The 15% holdback of fees from the December 2003 thru
22 April 2004 cover sheet applications of \$85,447 are currently outstanding. The services and costs
23 for the Final Application Period are described below with details of the Ninth Interim Period in
24 the exhibits filed concurrently herewith.

25 In its employment application FTI reserved the right to petition the Court with the
26 consent and support of the Committee, for a success fee. FTI participated in discussions with the
27 Committee and other Professionals to the Committee concerning the creation of a cash pool in
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1 which all estate professionals would share in the success of the reorganization. The Committee
2 voted to support the concept of a cash pool for professional success fees in the amount of \$10
3 Million to be shared equally among the professionals for the Committee, conditioned on, among
4 other things, that the success fee pool concept would be supported by the Debtor and that the
5 success fees would not be funded by the ratepayers. The Debtor refused to support such a
6 success fee pool for Committee professionals (or any other professionals) and on that basis, FTI
7 and Milbank determined that they would not proceed with a request for a success fee so as not to
8 involve the Committee in protracted litigation. However, should the Court determine that
9 success fees are appropriate for Committee professionals, FTI reserves its right to amend its
10 Final Fee Application to request a share of such success fee. Some of the reasons for the
11 Committee support for FTI were the following:

- 12 • Full payout to creditors with interest.
- 13 • Reduced administrative burden of exiting bankruptcy in 3 years.
- 14 • Structure that supports credit worthy status and maintains a stable regulatory
15 environment.
- 16 • Designed with Milbank, the Regulatory Asset under the Joint Plan.
- 17 • Participated with Milbank in the mediation process and approval of the Settlement
18 Agreement by the CPUC (including a key meeting with one Commissioner that pushed
19 the swing vote to 3-2 in favor of the Settlement Agreement).
- 20 • Testimony in support of the Settlement Agreement and the Plan in Bankruptcy Court and
21 the CPUC.

22 SUMMARY OF DEVELOPMENTS IN THE CASE

23
24 On April 6, 2001 (the "Petition Date"), Pacific Gas and Electric Company (the
25 "Debtors") filed voluntary petitions for reorganization under Chapter 11 of title 11 of the United
26 States Bankruptcy Code ("Bankruptcy Code"). The Debtors continue to operate their business
27 and manage their properties as debtors-in-possession pursuant to Sections 1107(a) and 1108 of
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1 the Bankruptcy Code.

2 On July 2, 2001 this Court entered an order authorizing, *nunc pro tunc*, employment of
3 PwC as of April 11, 2001, as Accountants and Financial Advisors for the Committee. On
4 October 31, 2002, an order (the "Retention Order") was entered to extend this employment to
5 FTI as successor to the PwC BRS Practice, *nunc pro tunc* to September 1, 2002. Neither PwC
6 (BRS) nor FTI received a retainer in this case.

7
8 The Retention Order authorized the retention of FTI to render to the Committee the
9 following essential services, which include but are not limited to the following:

- 10
11 (a) Assistance to the Committee in the review of financial related disclosures
12 required by the Court, including the Schedules of Assets and Liabilities,
13 the Statement of Financial Affairs and Monthly Operating Reports;
- 14 (b) Assistance with a review of the Debtor's short-term cash management
15 practices;
- 16 (c) Advice and guidance to the Committee with respect to utility accounting
17 and electric and gas utility operating elements, including elements of rate
18 making, cost recovery and the financial impact of regulatory decisions;
- 19 (d) Assistance and advice to the Committee with respect to the value of the
20 Debtor's operating assets and make recommendations regarding the
21 highest and best use, operation, and ultimate disposition of such assets;
- 22 (e) Assistance in the review of financial information distributed by the Debtor
23 to creditors and others, including, but not limited to, cash flow projections
24 and budgets, cash receipts and disbursement analysis, analysis of various
25 asset and liability accounts, and analysis of proposed transactions for
26 which Court approval is sought;
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- 1 (f) Attendance at meetings and assistance in discussions with the Debtor,
2 regulators, State agencies, mortgage holders and other secured lenders in
3 this chapter 11 case, the U.S. Trustee, other parties in interest and
4 professionals hired by the same, as requested;
- 5 (g) Assistance in the review and/or preparation of information and analysis
6 necessary for the confirmation of a Plan of Reorganization in this chapter
7 11 case;
- 8 (h) Assistance to the Committee and its counsel in the preparation and
9 evaluation of potential litigation;
- 10 (i) Assistance in the discharge of the Committee's duties and functions in this
11 case, including, but not limited to, compilation of material required for
12 court testimony; and
- 13 (j) Render such other general business consulting or such other assistance as
14 the Committee or its counsel may deem necessary that are not duplicative
15 of services provided by other professionals in this proceeding.

16 FTI incorporates by reference the overview of case activity presented in the Ninth Interim
17 and Final Application of Milbank Tweed Hadley & McCloy LLP for Allowance and Payment of
18 Compensation and Reimbursement of Expenses. Two competing plans were filed in the case,
19 subsequently a Joint Plan was filed and a Settlement Agreement was reached as the result of
20 Court ordered settlement negotiations. The Commission approved the modified Settlement
21 Agreement which led to the Court's order confirming the Settlement Plan of Reorganization on
22 December 22, 2003.

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24 II.

25 SUMMARY OF FTI'S EXPERIENCE

26
27 FTI, as successor to the BRS practice of PwC, has extensive experience in financial
28 reorganizations and bankruptcy consulting services. Our professionals have provided services

1 to a wide variety of companies in the electric and gas utility industry, and as a result, FTI has
2 accumulated a wealth of knowledge concerning the intricacies in these matters.

3 In bankruptcy restructurings, the FTI has accumulated over a quarter of a century of
4 experience serving Debtors, Creditors, and Trustees in bankruptcy matters.

5 FTI has assisted numerous Debtor and Debtor-In-Possession entities involving, successful
6 development of reorganization plans, numerous valuation projects, sales of assets in Chapter 11,
7 extensive tax consulting, and other services related to reorganization.

8 III.

9 SUMMARY OF SERVICES RENDERED BY FTI

10 During the Ninth Interim Period, FTI represented and advised the Committee with
11 respect to a wide range of issues and challenges. Due to the comprehensive nature of the
12 services rendered by FTI, no attempt is made herein to detail the totality of such services. The
13 full scope of the services rendered by FTI is set forth in detail in the billing reports filed
14 concurrently herewith under captions entitled "Detail Reporting by Task Code Exhibit for the
15 Period December 1, 2003 to April 12, 2004 " (the "Billing Reports"). However, in order to assist
16 the Court, the United States Trustee, PG&E and other parties in interest in reviewing this Final
17 Application, a brief summary of FTI's billing procedures and the services rendered by FTI during
18 the Ninth Interim and Final Application Period with regard to each activity code category,
19 including certain undertakings within each category, is set forth below.

20 A. Summary of FTI's Billing Procedures.

21 It is FTI's normal business practice to charge its clients in full for services rendered and
22 all actual and necessary out-of-pocket costs and expenses incurred by FTI in providing those
23 services.

24 In the ordinary course of its practice, FTI maintains records of time expended by
25 professionals in rendering services to its clients. Time records are made substantially
26 contemporaneous with the rendition of these professional services and are prepared by the
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1 professionals who have rendered the services. In matters such as this, time records are kept in 6
2 minute (.1 hour) increments.

3 This case, which was one of the ten largest bankruptcy cases filed in the United States,
4 has involved significant interaction with outside agencies, including the Federal Energy
5 Regulatory Commission ("FERC"), the California Public Utility Commission ("CPUC"), the
6 California Energy Commission, the Department of Water & Power ("DWR"), the State
7 Legislature, the Governors Office, as well as taxing authorities and other reporting agencies. The
8 activity in this case has been continuous and intense as the Debtor and Creditors have moved
9 swiftly to grapple with the innumerable issues of a regulated utility in bankruptcy, and parties
10 have sought to develop a consensual plan of reorganization structure. During the course of this
11 case, we have observed unprecedented action by all of the parties noted above to address the
12 underpinnings of the energy crisis in California. These have included the filing of two competing
13 plans of reorganization within one year of the case's commencement, proceedings by the
14 legislature and the CPUC to address hardship by the QF generators, proceedings by the
15 Governor, Legislature and FERC on price caps and refunds for energy, action by the Legislature
16 and Energy Commission to support development of power plants, proceedings with the CPUC
17 over the DWR power purchases, long term contracts, negotiations and legislative proceedings
18 involving bailout measures for utilities in California, issues involving the State Treasurers office,
19 DWR, CPUC and the Governor over bond financing for the DWR power purchases, interplay
20 among the utilities in California, the CPUC and DWR concerning allocation of the costs of
21 power and bond financing as it may affect each utility, and agreement between the CPUC and
22 Southern California Edison (SCE) on a means to repay SCE's past-due obligations. The issues at
23 stake have been monumental with PG&E's reported debt and claims exceeding \$13 Billion, the
24 range of revenue at stake for their electricity procurement activities varies from \$2.8 Billion to
25 \$3.7 Billion per year, the proposed allocation of DWR power and bond finance costs varying
26 from \$2.0 Billion to over \$2.2 Billion per year, and QF pre-petition claims on executory
27 contracts exceeding \$1 Billion. During the pendency of this case, we have observed electricity
28 prices vary from hundreds of dollars per Megawatt to power prices in the \$15-30 range. We have

1 seen natural gas prices vary by a factor of 10x the historic price average. Reported purchases of
2 power by the DWR have varied from over \$100 million per day to under \$12 million per day
3 during this period. There have been numerous legal challenges to actions of the Debtor, CPUC
4 and the State of California in this case, resulting in pending appeals and legal action on these
5 matters. Numerous appeals of decisions have been made on matters in this case and related
6 cases. Many of the claims are subject to scrutiny and legal action at the State and Federal levels.

7 The Committee organization structure has been unique for this case, with greater time
8 involvement by Committee members than in most any other case. The personal commitment of
9 Committee members to actively participate on a continuous basis has matched the activity level
10 in the case with over 15,100 filings listed in the Court docket through April 12, 2004. The
11 Committee has participated in an unprecedented number of meetings of the Committee, advisors,
12 the Debtor and the CPUC. The Committee, in order to address the monumental workload and
13 myriad of tasks at hand, created four distinct subcommittees: Financial, Legislative, Regulatory
14 and Plan. FTI assembled sub-teams of professionals to address the issues and work assignments
15 set forth by the Committee, subcommittees and working group. In the course of FTI's
16 representation of the Committee in this matter, it has been necessary and requested that more
17 than one or two professionals participate in meetings and conferences with the Committee
18 representatives, the CPUC or with the Debtor. This is not normally the case for FTI in such
19 matters and has been dictated by the size of the case, the complex nature of the matters being
20 discussed, the speed with which matters are being addressed in the case, and requirement to have
21 various specialty skills represented and participating in certain key discussions. In many cases,
22 these have been high-level meetings or key discussions with the Debtor representatives or the
23 CPUC and its advisors who are not able to make themselves available for repetitive follow-up
24 discussions. In many cases, the participation of multiple professionals by FTI has been dictated
25 by the specific specializations and backgrounds such as those of the following key professionals:

26 Michael Hamilton is FTI's senior Utility Specialist in Accounting and Regulatory
27 Matters. He has participated in each of the Firm's restructurings that have involved a utility over
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1 the past 25 years. He has unique knowledge of the regulatory and business environment facing
2 utilities. Mr. Hamilton has coordinated the Committee work on plan structuring, regulatory
3 matters, cash flow projections and legislative matters.

4 Thomas Lumsden is one of FTI's senior bankruptcy specialists, with specialization in
5 utilities and the California Market, having participated in development of the infrastructure for
6 the electricity deregulation in the State, and has operated and bought and sold electrical
7 generation facilities. Mr. Lumsden coordinated the Committee work on the financial modeling
8 and analysis of PG&E's operations and finances, the DWR power purchases and revenue
9 requirements, the tax issues involving the Plan structure, the retained generation filings with the
10 CPUC, the analysis of claims by class, analysis of the CPUC Plan, and development of
11 alternative plan structures, including the Joint Plan and Settlement Plan. Mr. Lumsden testified in
12 support of the Settlement Agreement before the CPUC and confirmation hearings for the Joint
13 Plan and Settlement Plan.

14 M. Freddie Reiss is a senior bankruptcy specialist for FTI with expertise in serving
15 Committees and dealing with intercreditor matters. He has coordinated the Firm's negotiations in
16 the areas of employee retention issues, employment of Debtor professionals, ordinary course
17 motions, committee governance, inter-creditor matters, and plan negotiations with the Debtor
18 and with the CPUC.

19 Rocky Ho is now a Senior Managing Director for FTI and has been responsible for
20 coordinating staff assignments and projects for the FTI team, review of work product, quality
21 control, and active participation in the development of the Settlement Agreement/Plan of
22 Reorganization, and has specialized in review and coordination of all Committee response to
23 Debtor motions and filings, litigation matters, Committee consent on capital expenditures and
24 claims disputes and settlements. Mr. Ho was responsible for maintaining Committee contacts
25 with the CPUC staff and financial advisors.

26 Allison Young is a Director for FTI and has specialized in the financial modeling, the
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1 statewide grid modeling, the cash flow analysis, the assessment of Debtor projections, the
2 assessment of the CPUC's projections, alternative plan structures and feasibility, tax analysis of
3 both plan proposals, and analysis of creditor claims by class.

4 Jennifer Kitchin was a Director for FTI and during her tenure with FTI she specialized in
5 the Rating Agency analysis of PG&E, the DWR power purchases and contract data.

6 Maryam Ghazi is a Director for FTI and has specialized in the analysis of the Settlement
7 Agreement and assisted in the preparation of Thomas E. Lumsden's testimony in support of the
8 Settlement Agreement presented to the Court and the CPUC.

9 Margery Neis was a Utilities specialist in the BRS Practice and during her tenure with
10 FTI coordinated the review and monitoring of all matters with the CPUC, the DWR power
11 purchases and contract database and QF contracts.

12 An analysis of meetings with multiple FTI professionals in attendance and an explanation of the
13 role and purpose of each professionals' participation are presented in Exhibit 4 to this
14 Application.

15 **B. Summary of Exhibits Regarding Services Rendered By FTI.**

16 FTI has attached the following exhibits as support to its Application:

17 1. Attached to the Declaration of Thomas E. Lumsden ("Lumsden Declaration") is
18 Exhibit 1 - A summary schedule showing the professionals who performed the services, the
19 number of hours spent, and the total fees for such services;

20 2. Exhibit 2, Exhibit 2-1, Exhibit 2-2 and Exhibit 2-3 - Summary of Fees by Project
21 Category and itemized time records, in chronological order, of each specific service for which an
22 award of compensation is sought, including previously unbilled and/or interim Court-ordered
23 reductions. The itemized record includes: (1) the date each service was rendered, (2) the
24 professional(s) who performed the service, (3) a description of the services rendered, and (4) the
25 time spent performing the service in increments of tenths of an hour for the Final Interim
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Application;

1 3. Exhibit 3 - Expense Detail reports by individual and itemized total expenses for
2 which reimbursement is sought. All expenses for which reimbursements are sought are disclosed
3 in detail by individual. It should be noted that any airfare charges were incurred as a result of
4 travel in coach class. FTI has not requested reimbursement for certain out-of-pocket expenses
5 when it would not be feasible to assemble the billing details for reimbursement under the
6 Guidelines. These unbilled out-of-pocket expenses typically include telephone charges for calls
7 placed in its offices, postage costs including Federal Express charges, photocopying and
8 facsimile charges incurred at the Applicant's offices in connection with these cases. These
9 unbilled out-of-pocket expenses are real costs that have been incurred by FTI and have benefited
10 the Estate; and

11 4. Exhibit 4 - Summary of Meetings when more than two FTI professionals
12 attended. The summary highlights the relative importance of each team member and the purpose
13 of their involvement at the meetings.

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15 **NARRATIVE SUMMARY OF SERVICES PROVIDED BY FTI.**

16 FTI has submitted detailed listings of time incurred by professional by task for the
17 monthly Cover Sheet Applications to the Debtor, Committee, the United States Trustee and the
18 Court for the period covered by this Final Application. FTI has reclassified some of the detailed
19 time into categories that more appropriately reflect the work performed. Reclassification was
20 made to harmonize the categorization among professionals.

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23 **1. Asset Sales/Valuation Issues (Category 01).**

24 FTI did not incur any hours in this category during the Ninth Interim Period.
25 During the overall case, FTI professionals spent a total of 1,027.9 hours rendering services in this
26 category, for which FTI seeks compensation of \$356,311. A summary of the FTI professionals
27 who rendered services in this category and the corresponding amount of fees requested is
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1 included in Exhibit "2." The Billing Record for this category, which sets forth a detailed
2 description of the services rendered are filed concurrently herewith.

3 Services rendered by FTI professionals in this category included:

- 4 a) FTI prepared top level valuations of the Debtor's assets and business segments
5 to ascertain solvency of Debtor and ability of the assets to provide asset value
6 coverage for the proposed debt issued under the plan of reorganization.
- 7 b) FTI performed a joint review with Saybrook Capital of the Debtor's improved
8 and unimproved real property asset base to determine values and potential sale
9 or finance opportunities.
- 10 c) FTI reviewed and analyzed the Debtor's schedule of assets expected to be sold
11 in the Plan of Reorganization.
- 12 d) FTI determined the value of the lands donated by PG&E in the Settlement
13 Agreement and assessed the tax impact on the Settlement POR.

14 This work was performed to enable the Committee to assess the accuracy of the
15 values presented by PG&E as shareholder contributions, assess the solvency of the Debtor,
16 assess proposed property sales to fund the plan of reorganization, and to assess the ability of the
17 Debtor's assets, at market value, to provide adequate coverage for the proposed debt to be issued
18 under the plan of reorganization. The valuation of the Debtors business segments involved
19 analysis of each component of the Debtors operations, adjusting for the different cost structure,
20 resources, market pricing and regulatory environment in California. This information assisted the
21 Committee in evaluating the debt capacity and creditworthiness of each of the proposed new
22 entities in the Plan of Reorganization. In the process of developing the comparable company
23 data which is referenced in valuations, FTI also utilized the information to assess the viability of
24 the Debtors financial projections for plan purposes.

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28 **2. Bankruptcy Court Approval of Settlement Agreement (Category 02)**

FTI did not incur any hours in this category during the Ninth Interim Period.

1 During the overall case, FTI professionals spent a total of 72.2 hours rendering services in this
2 category, for which FTI seeks compensation of \$40,613. A summary of the FTI professionals
3 who rendered services in this category and the corresponding amount of fees requested is
4 included in Exhibit "2." The Billing Report for this category, which sets forth a detailed
5 description of the services rendered is filed concurrently herewith.

6 Services rendered by FTI professionals in this category included:

- 7 a) FTI attended Confirmation Hearings
- 8 b) FTI reviewed and analyzed various testimonies and supporting depositions
9 presented at the confirmation hearings.
- 10 c) FTI reviewed and analyzed trial briefs presented at the confirmation hearings.

11 FTI worked closely with the CPUC, its consultants and PG&E to articulate the
12 benefits of the Settlement Agreement to all involved parties. FTI's findings were essential in
13 obtaining OCC support of the modifications proposed for the Settlement Agreement.

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17 **3. Bankruptcy Reporting/Operations (Category 03).**

18 During the Ninth Interim Period, FTI professionals spent a total of 202.8 hours
19 rendering services in this category, for which FTI seeks compensation of \$107,819. During the
20 overall case, FTI professionals spent a total of 1,221.7 hours rendering services in this category,
21 for which FTI seeks compensation of \$431,818. A summary of the FTI professionals who
22 rendered services in this category and the corresponding amount of fees requested is included in
23 Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the
24 services rendered is filed concurrently herewith.

25 Services rendered by FTI professionals in this category included:

- 26 a) FTI reviewed and analyzed various motions and pleadings of the case, and
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provided comment to the committee on the financial impact of these items.

- b) FTI reviewed and summarized the Debtor's updated Statement of Financial Affairs and Schedule of Assets and Liabilities.
- c) FTI participated in the Section 341 meeting.
- d) FTI reviewed the Debtor's Operating Reports submitted to the United States Trustee to assess financial performance, compliance with orders on capital expenditure, and track other Debtor activities.

There have been innumerable motions filed in the case by the Debtor and other parties which required review and assessment by FTI to assist counsel to the Committee in determining the necessary response. These included motions on capital expenditures, asset sales, and claim settlements, Power Exchange, lease extensions, POR transition costs, procurement plans, as well as document discovery requests. In many cases, the time associated with those motions was posted to a distinct task code, but in other more generic cases, the time was posted to the Bankruptcy Reporting task. Time charged to this task code also involved updating FTI's review of the Debtors Schedules of Assets and Liabilities and the Statement of Financial Affairs. These documents comprised over 30,000 pages of data and required extensive time to review and compile. This information, which primarily summarized the real assets and creditor claims of PG&E, was utilized in several aspects of our work including the valuation of real assets and in assessment of solvency and claim categorization. FTI correlated the claim information provided in the Schedules with reported data for key categories of claimants.

4. Cash Flow Analysis (Category 04).

During the Ninth Interim Period, FTI professionals spent a total of 94.0 hours rendering services in this category, for which FTI seeks compensation of \$46,118. During overall case, FTI professionals spent a total of 766.8 hours rendering services in this category, for which FTI seeks compensation of \$313,074. A summary of the FTI professionals who

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

Services rendered by FTI professionals in this category included:

- a) FTI conducted interviews with members of management and their advisors to understand the structure and underlying assumptions of financial projections. Specific analyses focused on revenue, balance sheet, cash flow projections, working capital needs, capital expenditure plans, and EBITDA margins. This analysis was necessary in to assess long-term viability and potential recovery to the unsecured creditors.
- b) FTI compared the historical cash flows to the cash flow projections for previous periods to ascertain the reasons for variations from budget and to aid in determining the accuracy of future cash flow projections.
- c) FTI analyzed the capital expenditure budget for each business segment and its impact on the debtors' cash flow projections.
- d) FTI analyzed the Debtors' cash flow forecasts to develop an understanding of the Debtor's liquidity position and its ability to generate sufficient cash to fund the proposed Plans of Reorganization.

The process was critical to understanding the financial projections, both cash based and operating, to evaluate the liquidity of the debtor, and its parent, to assess the Committee position with respect to motions related to ordinary course expenditures, capital expenditures, payments to DWR, payments to ISO, payments of Mortgage bonds due, the relationship and sensitivity of the cash flows to changes in natural gas fuel prices, and the Debtor's ability to generate sufficient cash flows to fund the Settlement Agreement or any proposed Plan of Reorganization.

5. Claims Analysis (Category 05).

During the Ninth Interim Period, FTI professionals spent a total of 113.2 hours

1 rendering services in this category, for which FTI seeks compensation of \$58,728. During the
2 overall case, FTI professionals spent a total of 1,162.2 hours rendering services in this category,
3 for which FTI seeks compensation of \$495,342. A summary of the FTI professionals who
4 rendered services in this category and the corresponding amount of fees requested is included in
5 Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the
6 services rendered is filed concurrently herewith.

7 Services rendered by FTI professionals in this category included:

- 8 a) FTI coordinated with the Debtor to summarize and reconcile those claims filed
9 against the company to validate the value of potential allowed claims that the
10 Estate is responsible for.
- 11 b) FTI reviewed the settlement between Enron and Southern California Edison to
12 determine if this could be a possible template for the settlement of Enron's
13 claim with the Debtor.
- 14 c) FTI reviewed and analyzed numerous claims stipulations.
- 15 d) FTI reviewed the support for and documentation of the NCPA and City of Palo
16 Alto claims against the debtor to evaluate the potential amount of this litigation
17 claim.
- 18 e) FTI reviewed the data on application of any generator and pass through claims,
19 and evaluated the FERC ordered refunds to reduce the allowed claims in the
20 case.
- 21 f) FTI reviewed the Sempra settlement agreement to assist the Committee in
22 determining whether to support or reject Debtor's proposed settlement
23 agreements.
- 24 g) FTI reviewed the settlement agreements with the PC bondholders to enhance the
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1 committee's understanding of the terms of the agreement and to assist in further
2 negotiations with the Debtor.

3 This work product involved the review of claims filed by creditors totaling in
4 excess of \$44 Billion; reconciling these amounts to those reported by the Debtor, and to
5 information supplied by institutional creditors and in public filings; and evaluating those claims
6 which are subject to estimation or adjustment through the ISO or PX, and those subject to CPUC
7 review. Work in this area resulted in validation on behalf of the Committee of a large segment
8 of the claims in this case and evaluation of key claims including those for Financial Creditors,
9 QF's, Sempra, Enron, ISO/Generators, cities, counties and other claimants where settlements
10 have been proposed or discussed. FTI coordinated with the Debtor to summarize and reconcile
11 those claims filed against the company to validate the value of potential allowed claims that the
12 Estate is responsible for.

13 6. Coordinating with Debtor (Category 06).

14 FTI did not incur any hours in this category during the Ninth Interim Period.
15 During the overall case, FTI professionals spent a total of 157.0 hours rendering services in this
16 category, for which FTI seeks compensation of \$74,329. A summary of the FTI professionals
17 who rendered services in this category and the corresponding amount of fees requested is
18 included in Exhibit "2." The Billing Report for this category, which sets forth a detailed
19 description of the services rendered is filed concurrently herewith.

20 Services rendered by FTI professionals in this category included:

- 21 a) FTI spent time coordinating meetings or the exchange of information with the
22 debtor or its advisors. The time spent drafting data requests and preparing for
23 these meetings are recorded in this task category. Attendance in meetings with
24 the Debtor is recorded in the relevant task code.

25 This effort resulted in a coordinated and smooth flow of information from the
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1 Debtor to the Committee and enabled the Committee to respond to requests of the Debtor and the
2 Court on a timely basis. FTI also shared much of its analysis of various aspects of the Debtors
3 operations, including load and resource assessments, Plan financial projections, regulatory
4 issues, and DWR contract and revenue requirement estimations with Debtors, its advisors, and
5 the CPUC in support of the Settlement Agreement. This collaborative effort enhanced the
6 efficiency of exchange of information and advanced activities in the progress of the case.

7 **7. CPUC Approval of Settlement Agreement (Category 07).**

8 During the Ninth Interim Period, FTI professionals spent a total of 191.5 hours
9 rendering services in this category, for which FTI seeks compensation of \$104,659. During the
10 overall case, FTI professionals spent a total of 643.4 hours rendering services in this category,
11 for which FTI seeks compensation of \$338,082. A summary of the FTI professionals who
12 rendered services in this category and the corresponding amount of fees requested is included in
13 Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the
14 services rendered is filed concurrently herewith.

15 Services rendered by FTI professionals in this category included:

- 16
- 17 a) FTI monitored the process for CPUC approval of the Settlement Agreement and
 - 18 analyzed testimony filed by interveners for the related CPUC hearings.
 - 19
 - 20 b) FTI reviewed and analyzed the OCC and PG&E trial briefs.
 - 21
 - 22 c) FTI attended CPUC hearings on the Settlement Agreement.
 - 23
 - 24 d) FTI prepared Thomas E. Lumsden's rebuttal testimony.
 - 25
 - 26 e) FTI analyzed the Settlement Agreement and prepared a presentation for the
 - 27 OCC detailing the key terms and conditions of the Settlement Agreement.
 - 28
 - f) FTI worked with UBS in the preparation of models to calculate the financial
 - metrics achieved thru the Settlement Agreement.

1 FTI's work was critical to the assessment of the reasonableness of the interveners'
2 testimonies, and their potential impact on the Settlement Agreement and Plan of Reorganization.

3 FTI worked closely with the CPUC, its consultants and PG&E to articulate the benefits of the
4 agreement to all involved parties and determine the impact of proposed modifications to the
5 Settlement Agreement. FTI's findings were essential in obtaining OCC support of the
6 modifications proposed for the Settlement Agreement and were relied on by the CPUC and
7 PG&E to validate their independent review of such modifications.

8 **8. CPUC Plan of Reorganization (Category 08).**

9 FTI did not incur any hours in this category during the Ninth Interim Period.
10 During the overall case FTI professionals spent a total of 462.9 hours rendering services in this
11 category, for which FTI seeks compensation of \$214,329. The CPUC Plan of Reorganization
12 was filed May 17, 2002, as an alternative to the Plan filed by the Debtor. A summary of the FTI
13 professionals who rendered services in this category and the corresponding amount of fees
14 requested is included in Exhibit "2." The Billing Report for this category, which sets forth a
15 detailed description of the services rendered is filed concurrently herewith.

16 Services rendered by FTI professionals in this category included:

- 17
- 18 a) FTI reviewed and analyzed the CPUC's alternative plan projections and
 - 19 provided feedback to the CPUC on the reasonableness of the Plan projections,
 - 20 including the proposed capital structure and creditor recovery analysis.
 - 21
 - 22 b) FTI prepared an in-depth analysis of the CPUC's initial Plan term sheet and
 - 23 provided feedback on shortfalls in the initial plan terms.
 - 24
 - 25 c) FTI assisted Milbank in preparing an objection to the term sheet by
 - 26 summarizing the deficiencies of the CPUC's Plan.
 - 27
 - 28 d) FTI prepared an in-depth analysis for the Committee of the CPUC's Plan and
 - Disclosure Statement and how it compared to the PG&E Plan.

1 e) FTI analyzed the projected financial ratios from the CPUC's alternate plan and
2 compared to S&P benchmark ratios for utility investment grade companies.

3 f) FTI participated in mediation hearings between the CPUC, the Debtor and the
4 professionals for the Unsecured Creditors Committee to determine if a
5 consensual Plan of Reorganization could be developed.

6 The work in this area enabled the Creditors Committee to quickly respond to the
7 CPUC's term sheet, to provide meaningful feedback to the CPUC on deficiencies in its plan, and
8 to recommend alterations that enabled the Commission to readily prepare an amended plan that
9 could provide for the payment in full of all valid claims. FTI also provided valuable input into
10 the mediation process by preparing models of consensual plans that incorporated aspects of both
11 the Debtor's and the CPUC's proposed plans. This analysis provided a framework for alternative
12 plan structures during the mediation process.

13
14 **9. CPUC Review (Category 09).**

15 During the Ninth Interim Period, FTI professionals spent a total of 102.5 hours
16 rendering services in this category, for which FTI seeks compensation of \$50,135. During the
17 overall case, FTI professionals spent a total of 1,592.7 hours rendering services in this category,
18 for which FTI seeks compensation of \$631,369. The category of CPUC Review captures the
19 time incurred with the review and financial analysis of a myriad of regulatory filings and
20 proceedings that have an affect on PG&E's finances and regulatory recoveries. A summary of
21 the FTI professionals who rendered services in this category and the corresponding amount of
22 fees requested is included in Exhibit "2." The Billing Report for this category, which sets forth a
23 detailed description of the services rendered is filed concurrently herewith.

24 Services rendered by FTI professionals in this category included:

25 a) FTI reviewed the Debtor's, SCE's, SDG&E's, DWR's and TURN's CPUC
26 filings to determine the potential financial impact on the Debtor's estate.
27
28

1 b) FTI reviewed and monitored CPUC proceedings to determine the potential
2 financial impact the proceedings could have on the Debtor.

3 c) FTI reviewed the TRA-TCBA and GMA account statements (regulatory
4 balancing accounts) to determine correlation with power process of PG&E.

5 d) FTI reviewed filings and proceedings related to the DWR refund proceedings
6 and its potential impact on PG&E's forecasted cash balance.

7 e) FTI analyzed the merits and rationale of each California utilities' URG filing.
8 This analysis was used to develop a projected revenue requirement for the
9 Debtor.

10 f) FTI analyzed the merits and rationale of the CPUC's settlement agreement
11 with SCE, and whether a similar agreement would be beneficial or feasible for
12 the Debtor.

13 g) FTI reviewed and analyzed materials for GRC hearings and their assessed
14 impact on the Plans of Reorganizations for the Debtor.

15 h) FTI prepared the Declaration of Thomas E. Lumsden regarding the DWR
16 rebate impact on the Company's cash flow and POR.

17 i) FTI reviewed sections of the Public Utility Commission code and regulations
18 to assess Joint Plan compliance with and PG&E objections to the Joint Plan.

19 The work in this area was critical to the determination of future cash flow and
20 funding of the Debtor to complete a plan of reorganization. As an integrated utility, the Debtor is
21 regulated by the CPUC for all aspects of its owned generation (nuclear and hydro assets), intra-
22 state gas transmission and storage facilities, gas and electric procurement, and distribution of
23 electricity and gas to its wholesale and retail customers through its network of pipes and wires
24 throughout Northern California. The CPUC and PG&E have made filings and conducted
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1 hearings on such regulatory topics as utility retained generation rate setting, general rate case,
2 DWR revenue requirement, net short procurement, attrition, and matters involving transition
3 period accounting during deregulation. PG&E had been actively engaged with the CPUC during
4 this period with the setting of the revenue requirements for its nuclear and hydro generation
5 assets and with the revenue requirement for the DWR power purchases and bond financing. FTI
6 monitored the CPUC hearings, testimonies and developments closely, and prepared minutes of
7 key hearings and modeled the range of outcomes for the Committee. FTI also performed a
8 thorough analysis of the CPUC's settlement with SCE for the recovery of its past-due
9 procurement related obligations and how this agreement compared with the Plan proposed by the
10 CPUC for PG&E. FTI also researched elements of the CPUC regulation to assess compliance of
11 the Plan of Reorganization.

12 **10. CPUC/OCC Joint Plan of Reorganization (Category 10).**

13 FTI did not incur any hours in this category during the Ninth Interim Period. During the
14 overall case, FTI professionals spent a total of 562.6 hours rendering services in this category,
15 for which FTI seeks compensation of \$286,112. Time captured in this category represents the
16 development, filing and confirmation hearings for the joint Plan of Reorganization between the
17 OCC and the CPUC. A summary of the FTI professionals who rendered services in this category
18 and the corresponding amount of fees requested is included in Exhibit "2." The Billing Report
19 for this category, which sets forth a detailed description of the services rendered is filed
20 concurrently herewith.

21 Services rendered by FTI professionals in this category included:

- 22
- 23 a) FTI reviewed and analyzed the alternatives to the Joint Plan projections and
24 provided feedback to UBS and the CPUC on the reasonableness of the Plan
25 projections, including the proposed capital structure, capital expenditures, and
26 creditor recovery analysis.
 - 27 b) FTI analyzed the projected financial ratios from the Joint Plan and derivations
28

1 of that plan structure and compared S&P benchmark ratios for utility investment
2 grade companies.

- 3 c) FTI analyzed the modified Joint Plan projections prepared by UBS and provided
4 advice and comments to UBS and the Committee on the modified Joint Plan
5 projections.
- 6 d) FTI participated in meetings with credit rating agencies, including Fitch,
7 Moody's, and S&P, to present the financial aspects of the CPUC/OCC Plan of
8 Reorganization in support of investment grade ratings for proposed debt under
9 the CPUC/OCC Plan.
- 10 e) FTI advised attorneys for the CPUC and the OCC in confirmation hearings for
11 the CPUC/OCC Plan, including preparing financial analyses in support of the
12 CPUC/OCC plan and in defense of PG&E objections to the CPUC/OCC Plan.
13 And in support of UBS in its testimony and delivery of the UBS Highly
14 Confidential letter on financing of the Joint Plan.
- 15 f) Tom Lumsden of FTI provided testimony in the confirmation hearings for the
16 CPUC/OCC Plan.

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18
19 The work in this area enabled the Creditors Committee to provide meaningful
20 feedback to the CPUC on modifications to the Joint Plan to improve plan feasibility, to assist
21 UBS in developing modifications to the Joint Plan projections, and assessing indications for
22 ratings for modified Joint Plan Securities. This work also enabled the CPUC to address
23 objections to the plan filed by the Debtor and helped the CPUC/OCC plan receive preliminary
24 investment grade ratings from the agencies.

25 **11. Debtor Plan of Reorganization/Negotiations (Category 11).**

26 During the Ninth Interim Period, FTI professionals spent a total of 0.6 hours
27 rendering services in this category, for which FTI seeks compensation of \$177. During the
28

1 overall case FTI professionals spent a total of 1,540.5 hours rendering services in this category,
2 for which FTI seeks compensation of \$740,720. A summary of the FTI professionals who
3 rendered services in this category and the corresponding amount of fees requested is included in
4 Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the
5 services rendered is filed concurrently herewith.

6 Services rendered by FTI professionals listed in this category included:

- 7 a) FTI personnel prepared for and participated in numerous meetings with
8 Committee members, Committee Advisors, the Debtor, and the Debtor's
9 advisors to obtain background information and support of the Debtor's
10 proposed plan of reorganization.
- 11 b) FTI assisted the Committee in negotiations with the Debtor surrounding its
12 proposed plan of reorganization.
- 13 c) FTI reviewed and analyzed various filings made by the debtor in support of its
14 Plan of Reorganization for the Plan's confirmation hearings. FTI further
15 participated in various depositions of key financial personnel of the Debtor to
16 obtain a better understanding of the changes to the Debtor's financial
17 projections.
- 18 d) FTI analyzed and summarized amended financial aspects of the Debtor's Plan
19 of Reorganization and presented our analysis to the Committee.
- 20 e) FTI reviewed the amended Disclosure Statement, and Plan documents to
21 insure consistency between the details in these documents and the revised
22 supporting plan projections.

23 Despite the size and scale of this bankruptcy proceeding, the Committee and
24 Debtor adopted a schedule to develop a range of plan alternatives and quickly move to
25 implement the optimal plan of reorganization for stakeholders. This involved fast-track efforts
26

1 that have incorporated all elements of the work that FTI performed on behalf of the Committee,
2 enabling a continuous engagement and review of underlying detail of all plan alternatives. The
3 Committee continued to monitor the Debtor's financial performance and changes to Debtor's
4 plan of reorganization, until this plan was supplemented with the Settlement Agreement.

5 **12. DWR Contracts Analysis (Category 12).**

6 During the Ninth Interim Period, FTI professionals spent a total of 1.3 hours
7 rendering services in this category, for which FTI seeks compensation of \$715. During the
8 overall case, FTI professionals spent a total of 1,290.1 hours rendering services in this category,
9 for which FTI seeks compensation of \$467,070. A summary of the FTI professionals who
10 rendered services in this category and the corresponding amount of fees requested is included in
11 Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the
12 services rendered is filed concurrently herewith.

13 Services rendered by FTI professionals in this category included:

- 14 a) FTI analyzed and summarized the terms of the DWR power purchase contracts
15 and April to June 2001 short-term energy purchases. This involved analysis of
16 each long term contract which DWR entered into, development of a database
17 for this contract information, and coordination of this information with PG&E
18 to facilitate the evaluation of the underlying data which was being utilized by
19 DWR to establish the revenue requirement for each utility in California.
- 20 b) FTI calculated the potential range of future payments that will be required to be
21 remitted to the DWR by the Debtor to pay for its purchased power,
22 administrative costs, long-term contracts and debt service requirements.
- 23 c) FTI evaluated how the revised DWR revenue requirement would impact the
24 projected financial statements of the Debtor, CPUC and Joint Plans and the
25 Settlement Agreement.

1 d) FTI reviewed updates to the DWR Revenue Requirement and the underlying
2 Navigant model and settlements amending the underlying contracts.

3 Approximately 40% of the electricity that PG&E supplies to its customers was
4 provided by the DWR through spot and contract purchases under the program initiated by ABx1.
5 This program by DWR provided the power to meet the net short load component of each utility
6 in California since February 2001. DWR entered into long term power purchase contracts
7 amounting to over \$40 billion in financial commitments. FTI developed a database of these
8 contracts to determine PG&E commitments. FTI monitored the power purchases supplied by
9 DWR to PG&E, estimated the costs of that power, as well as future costs associated with
10 contractual commitments and spot purchases to meet PG&E's net short position, and developed
11 estimates of those future costs. This information was compared with financial data supplied by
12 consultants to the DWR and was also shared with PG&E to assist in efforts to influence the
13 structure of the allocation of those costs among the utilities in California. FTI continued its
14 review of the contracts that had been completed by the DWR and updated our database model of
15 those contracts for newly obtained contracts and renegotiated contracts to enable the Committee
16 and PG&E to estimate the volume and cost of that power and its potential allocation to PG&E.
17 These future power costs were integrated with the DWR proposed bond finance program to
18 estimate the cash flow impact to PG&E. The impact of the cost of DWR power and finance
19 charges was substantial to any proposed plan, amounting to estimated amounts of \$2.2 billion to
20 \$3 billion per year for PG&E.

21 **13. Employee Issues/Benefit/Retention (Category 13).**

22 FTI did not incur any hours in this category during the Ninth Interim Period.
23 During the overall case, FTI professionals spent a total of 13.7 hours rendering services in this
24 category, for which FTI seeks compensation of \$6,073. A summary of the FTI professionals
25 who rendered services in this category and the corresponding amount of fees requested is
26 included in Exhibit "2." The Billing Report for this category, which sets forth a detailed
27 description of the services rendered is filed concurrently herewith.
28

1 Services rendered by FTI professionals in this category included:

- 2 a) FTI reviewed and analyzed the proposed bonus retention plan of the Debtor.
3 b) FTI summarized the retention plan and prepared a recommended course of
4 action for the Committee to take on the Debtor's motion for approval of its
5 bonus retention plan.
6 c) FTI professionals attended court hearings to monitor the Debtor's motion for a
7 management retention plan.
8

9 As with many large bankruptcy filings, the issue of impact on management and key
10 employees was a critical concern for the Committee. Working with the Debtor, FTI reviewed the
11 framework for a retention plan and developed incentives to retain and empower key employees
12 to achieve a plan of reorganization as quickly as possible. FTI reviewed the compensation and
13 incentive structure of existing and proposed employee benefit plans as part of this analysis for
14 the Committee.
15

16 **14. Executory Contracts Analysis (Category 14).**

17 FTI did not incur any hours in this category during the Ninth Interim Period.
18 During the overall case, FTI professionals spent a total of 567.8 hours rendering services in this
19 category, for which FTI seeks compensation of \$239,335. A summary of the FTI professionals
20 who rendered services in this category and the corresponding amount of fees requested is
21 included in Exhibit "2." The Billing Report for this category, which sets forth a detailed
22 description of the services rendered are filed concurrently herewith.
23

24 Services rendered by FTI in this category included:

- 25 a) FTI analyzed various settlement scenarios for executory contracts to determine
26 the impact on the Debtor's projected cash position and cash flows.
27 b) FTI performed in-depth financial analysis of various issues related to
28

1 proceedings brought by numerous Qualified Facility ("QF") creditors to compel
2 PG&E to assume or reject the power purchase agreements between PG&E and
3 the QFs.

4 c) FTI analyzed QF hardship claims, participated in negotiations with the Debtor
5 and QFs, and presented its findings on the matter to the Court.

6 d) FTI reviewed and analyzed proposed stipulation between the debtor and the
7 Power Exchange to assume power contracts subject to certain limitations.

8
9 This work involved review of proposed QF and other various settlement
10 agreements, pricing forecasts, production volumes, comparison to historic levels, assessment of
11 the potential for return to full production, evaluation of the alternative cost of replacement
12 power, assessment of financial hardship and impairments to achieving full production by several
13 QFs, and negotiations with the Debtor on structures for assumption and modification of these
14 executory contracts. The more than 300 QF generators supply approximately 1/3 of the power
15 PG&E delivers to its customers, and the associated pre-petition claims approximated \$1 Billion.
16 FTI's work in this area helped the Committee to understand the financial consequences of the
17 proposed settlements and whether to support or reject the Debtor's proposed settlement
18 agreements. This work was also instrumental to the Court and QFs in developing a payment
19 program for QFs facing financial hardship, and in negotiating modifications to the contracts
20 which reduced the price risk to PG&E and retained the benefit of these QF contracts for PG&E's
21 customers.

22 **15. Extra-net Web Site Development and Maintenance (Category 15).**

23 FTI did not incur any hours in this category during the Ninth Interim Period.
24 During the overall case, FTI professionals spent a total of 224.6 hours rendering services in this
25 category, for which FTI seeks compensation of \$64,848. A summary of the FTI professionals
26 who rendered services in this category and the corresponding amount of fees requested is
27 included in Exhibit "2." The Billing Report for this category, which set forth a detailed
28

1 description of the services rendered are filed concurrently herewith.

2 Services rendered by FTI in this category included:

3 a) FTI maintained an Extranet site for use by the Committee to allow for the easier
4 transfer of information during the initial year of the case. The web-site includes
5 postings of relevant documents, including counsel and financial advisor prepared
6 documents, calendar of major case events, a contact database, glossary of key
7 industry terms, and links to relevant external websites.

8
9 This effort provided the 11 members of the Committee and their counsel and
10 advisors with an efficient central repository of financial and legal data, links to key internet sites,
11 and a central communication channel for Committee activities. This served to be an effective
12 communication tool in educating the Committee members during the first year of the case about
13 the California Energy Market. FTI wrote-off \$27,150 in extranet programming expenses that
14 were incurred in the First Interim Fee Application Period, but for which FTI did not receive a bill
15 until September 2001.

16 **16. Fee Application (Category 16).**

17
18 During the Ninth Interim Period, FTI professionals spent a total of 74.5 hours
19 rendering services in this category, for which FTI seeks compensation of \$25,052. During the
20 overall case, FTI professionals spent a total of 1,036.6 hours rendering services in this category,
21 for which FTI seeks compensation of \$237,087. A summary of the FTI professionals who
22 rendered services in this category and the corresponding amount of fees requested is included in
23 Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the
24 services rendered are filed concurrently herewith.

25 Services rendered by FTI professionals in this category included:

26 a) Time spent preparing FTI's eight Interim Fee Applications and the thirty-eight
27 monthly Cover Sheet Applications for Allowance and Payment of Interim
28

1 Compensation and Reimbursement of Expenses in accordance with the
2 requirements established by the United States Bankruptcy Code, the Court and the
3 U.S. Trustee. Time expended preparing this Final Application will be billed
4 directly to PG&E in accordance with the Court's post confirmation guidelines for
5 professional fee reimbursements.

6 **17. FERC Review (Category 17).**

7 During the Ninth Interim Period, FTI professionals spent a total of 2.6 hours
8 rendering services in this category, for which FTI seeks compensation of \$949. During the
9 overall case, FTI professionals spent a total of 328.0 hours rendering services in this category,
10 for which FTI seeks compensation of \$139,365. A summary of the FTI professionals who
11 rendered services in this category and the corresponding amount of fees requested is included in
12 Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the
13 services rendered is filed concurrently herewith.

14 Services rendered by FTI professionals in this category included:

- 15
- 16 a) FTI monitored FERC proceedings to determine the potential financial impact of
17 regulatory proceedings on the Debtor's Estate, including possible changes in
18 rates, generator refunds, settlement of the California PX/Generator claims, and
19 progress on the Debtor's filings requesting FERC approval for various aspects
20 of its Plan of Reorganization.
 - 21 b) FTI reported findings and financial analysis on FERC proceedings to the
22 Committee.

23
24 This analysis and monitoring, in concert with regulatory counsel for the
25 Committee, was critical to assessment of potential refunds on claims that may be awarded to
26 PG&E, reducing the pre-petition obligations, and analyzing the potential claim PG&E will have
27 from the settlement of generator claims against the now defunct California Power Exchange. FTI
28

1 also advised the Committee with respect to the impact of FERC market price caps and the impact
2 of the retroactive application of those caps to the PX, ISO and DWR purchases as they may
3 affect the Debtor. FTI also monitored the FERC approvals of PG&E's plan of reorganization.

4 **18. Financial Grid Load Modeling (Category 18).**

5 FTI did not incur any hours in this category during the Ninth Interim Period.
6 During the overall case, FTI professionals spent a total of 698.3 hours rendering services in this
7 category, for which FTI seeks compensation of \$236,067. A summary of the FTI professionals
8 who rendered services in this category and the corresponding amount of fees requested is
9 included in Exhibit "2." The Billing Report for this category, which sets forth a detailed
10 description of the services rendered is filed concurrently herewith.

11 Services rendered by FTI professionals in this category included:

- 12 a) FTI developed a model to simulate the load grid balance of electrical power
13 across the state to assess the feasibility of a state-wide restructuring plan,
14 including the anticipated financing needs of the State, anticipated net short
15 requirements, and projected future prices of gas and electricity for PG&E and
16 for other utilities served by DWR.
- 17 b) FTI updated its model to simulate the load grid balance of electrical power
18 across the state with updated forecasts of load, demand and energy costs.
- 19 c) FTI then analyzed the allocation of DWR costs across the state to determine the
20 financial impact on the Debtor and implications to the Debtor's ability to create
21 a plan of reorganization.

22 Since January 2001, the power procurement for the State of California was
23 performed by DWR on a combined basis to meet the collective requirements of all three utilities
24 in the State. Because of the language of ABx1, it was necessary to analyze the overall net short
25 position within the State to evaluate the potential net cost to the Debtor. The data collection and
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operational modeling efforts in this area benefited many other segments of our analysis, including the QF contract assessment, DWR contracts, DWR spot purchases, load forecasting, retained generation revenue proceedings, DWR cost allocations, natural gas price forecasts, capital expenditure for load growth and relief of transmission constraints, and volatility of PG&E's future cash flows to interruptions in any segment of the supply chain. This work served as the backbone for the financial modeling of the Debtors operations and cash flows in the financial statement modeling to assess various plan alternatives. The outcome of our grid load modeling was shared with the Debtor and compared with the forecasts of the Debtor and DWR for their own segments of the system.

As the information flow from the Debtor to the Creditors Committee improved greatly over the first four to eight months of the case, FTI no longer needed to maintain a separate load grid model, and instead analyzed and utilized the Debtor's assumptions of the load grid balance and related costs in our financial modeling. The work performed in this task category served to verify the validity of the Debtor's assumptions in its Load Grid model, and as the backbone for the financial modeling of the Debtors operations and cash flows in the financial statement modeling task code to assess various plan alternatives.

19. Financial Statement Modeling (Category 19).

During the Ninth Interim Period, FTI professionals spent a total of 12.9 hours rendering services in this category, for which FTI seeks compensation of \$5,801. During the overall case, FTI professionals spent a total of 1,408.2 hours rendering services in this category, for which FTI seeks compensation of \$511,557. A summary of the FTI professionals who rendered services in this category and the corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the services rendered is filed concurrently herewith.

Services rendered by FTI professionals listed in this category included:

- a) FTI created various financial models to project the operating results of the

Debtor both during and upon exit from bankruptcy. Models were created that analyzed the company's performance both on a cash-flow basis and an accrual basis.

- b) FTI created an in-depth model that mimicked the Debtor's preliminary plan of reorganization and allowed for the running of scenario analysis to test the financial impact of various changes in the Debtor's operating assumptions. This modeling included analysis of the disaggregated financial projections for the Debtors four segments.
- c) FTI monitored and compared PG&E's actual financial results to those forecasted in FTI's models and refined assumptions in future projection periods to reflect current market conditions.
- d) FTI continued to assess the reasonableness of PG&E's financial projections that served as the basis for the Debtor Plans.
- e) FTI performed various other financial analysis of the Debtor's operations and proposed plan settlements, including an analysis of the settlement agreement proposed for LC backed bonds, a comparison of PG&E and Southern California Edison's cost of service and the recovery the creditors would receive if a similar agreement to the one reached between SCE and the CPUC was offered to PG&E.
- f) FTI developed an integrated financial statement model to support various alternative plans under consideration by the committee. This integrated model enabled the committee to create financial projections to support the joint OCC/CPUC plan of reorganization that was filed with the court. The results of this joint plan modeling was shared with the UBS to facilitate development of the Joint Plan and Disclosure Statement projections and rating agency analysis.

FTI's financial modeling effort enabled the Committee to assess the feasibility of the Debtor's POR, the CPUC/OCC's Joint POR and the Settlement Agreement. This model proved integral in calculating the cash flows of the alternative plans and assessing the feasibility of various capital structures. The Settlement Plan submitted to the court was supported by financial projections generated from FTI's financial modeling efforts. This model was also utilized as an integral tool in our top-level valuation efforts to assess value of various segments of the Debtors business and operations.

20. Financial Statements (Category 20).

During the Ninth Interim Period, FTI professionals spent a total of 57.6 hours rendering services in this category, for which FTI seeks compensation of \$30,757. During the overall case, FTI professionals spent a total of 558.8 hours rendering services in this category, for which FTI seeks compensation of \$218,498. A summary of the FTI professionals who rendered services in this category and the corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the services rendered is filed concurrently herewith.

Services rendered by FTI professionals in this category included:

- a) FTI reviewed the Debtor's historical financial statements filed during this period, including SEC, FERC and bankruptcy filings.
- b) FTI used its research of the Debtor's historical performance in performing various financial analyses on the Debtor's financial condition and ability to reorganize, including assessment of changes in the parent financial condition.
- c) FTI developed disaggregated financial information for the Debtor's four operating segments to test the feasibility of PG&E's initial Plan of Reorganization.

As a regulated utility, the Debtor's financial statement filings include submissions

to the SEC, FERC, and the CPUC that outline the accounting for GAAP (generally accepted accounting principals) presentation and regulatory accounting purposes. These financial statements present voluminous information on the historical performance and financial health of the Debtor. FTI reviewed certain public filings to verify financial projections in the plan of reorganization and to summarize the financial performance of the utility post-petition for the creditors committee.

21. General Committee Matters (Category 21).

During the Ninth Interim Period, FTI professionals spent a total of 51.7 hours rendering services in this category, for which FTI seeks compensation of \$29,537. During the Final Application Period, FTI professionals spent a total of 1,280.9 hours rendering services in this category, for which FTI seeks compensation of \$675,284. A summary of the FTI professionals who rendered services in this category and the corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the services rendered is filed concurrently herewith.

Services rendered by FTI professionals listed in this category included:

- a) FTI prepared for and attended numerous meetings and conference calls including the full Committee on a variety of issues, including general case administration, financial issues, regulatory issues, litigation issues, Plan issues, Settlement Agreement issues and confirmation hearing matters.
- b) FTI personnel prepared for and participated in various formal and informal conference calls between Committee members, Committee working group members, Committee advisors and PG&E regarding the financial impact of various motions brought by PG&E, the Debtor's Settlement Plan of Reorganization, confirmation hearings, and other issues surrounding the Debtor's estate.

- 1 c) FTI prepared numerous presentations for distribution to the Committee
2 regarding the financial impact of various matters affecting the Debtor's estate,
3 and addressed questions from individual creditors on aspects of the various Plan
4 of Reorganization and Disclosure Statements filed in this case and the
5 Settlement Agreement.

6 As has been mentioned earlier, the Committee was extremely active, participating
7 in a significant number of meetings and conferences to address the volume of issues facing the
8 Debtor and to accelerate the process of reorganization of this Debtor. FTI structured its team
9 into subgroups with senior members and staff splitting responsibility for various areas. This
10 category captures the time spent associated with the myriad of meetings and conferences that FTI
11 participated in which do not address any one particular task code topic. FTI attempted to
12 minimize the participation of more than one or two professionals in these meetings and
13 conferences, but in many cases, the variety and complexity of the issues addressed, the speed
14 with which activities in the case progressed, and the particular specialties of the FTI
15 professionals involved have dictated the need to have more than one or two professionals in
16 attendance. For meetings where more than two FTI professionals were present, Exhibit 4
17 summarizes the role of each team member and the purpose of their involvement at the meeting.

18 **22. Legislative Review (Category 22).**

19 During the Ninth Interim Period, FTI professionals spent a total of 16.0 hours
20 rendering services in this category, for which FTI seeks compensation of \$9,345. During the
21 overall case, FTI professionals spent a total of 221.0 hours rendering services in this category,
22 for which FTI seeks compensation of \$96,934. A summary of the FTI professionals who
23 rendered services in this category and the corresponding amount of fees requested is included in
24 Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the
25 services rendered is filed concurrently herewith.
26

27 Services rendered by FTI professionals listed in this category included:
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- 1 a) FTI performed a review and analysis of financial implications of potential and
2 passed legislation affecting the Debtor's estate, including the dedicated rate
3 component legislation supporting the Settlement Plan.

- 4 b) FTI participated in meetings and calls with legislative representatives to explain
5 the benefits and requirements for each plan of reorganization for PG&E.

6 This utility bankruptcy involved not just the interplay of the Debtor, creditors and
7 regulators, but also drew in the legislative element as the governor and state legislators sought a
8 resolution to the crisis that affected the energy supply in California. FTI monitored, in concert
9 with Saybrook Capital representatives, the various alternatives being presented by the governor
10 and legislators to assess if these may serve as a proxy for a plan of reorganization for PG&E, and
11 to determine if any of these proposals would have detrimental impact to the Debtor or the
12 Settlement Plan of Reorganization.

13 **23. Mediation Support (Category 23).**

14 FTI did not incur any hours in this category during the Ninth Interim Period. During
15 the Final Application Period, FTI professionals spent a total of 116.6 hours rendering services in
16 this category, for which FTI seeks compensation of \$60,465. A summary of the FTI
17 professionals who rendered services in this category and the corresponding amount of fees
18 requested is included in Exhibit "2." The Billing Report for this category, which sets forth a
19 detailed description of the services rendered is filed concurrently herewith.
20

21 Services rendered by FTI professionals listed in this category included:

- 22 a) FTI reviewed and analyzed various alternatives under consideration during
23 the mediation process conducted in 2003 and analyzed financial forecasts
24 and sensitivities of various financing structures under consideration.
25 b) FTI worked with UBS and the CPUC to prepare models to support the
26 alternatives under consideration in the mediation process.
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28

FTI assisted UBS in the creation of financial models to support various alternatives under consideration in the mediation process. FTI further analyzed PG&E's financial models of the proposed settlement and reconciled the modeling results of PG&E to those of the CPUC/UBS so that all parties were relying on the same set of financial projections.

24. OCC Plan of Reorganization/Negotiations (Category 24).

FTI did not incur any hours in this category during the Ninth Interim Period. During the overall case, FTI professionals spent a total of 189.7 hours rendering services in this category between July 2002 through September 2002, for which FTI seeks compensation of \$99,012. A summary of the FTI professionals who rendered services in this category and the corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the services rendered is filed concurrently herewith.

Services rendered by FTI professionals listed in this category included:

- a) FTI developed and analyzed various plan alternatives under consideration by the OCC plan subcommittee.
- b) FTI reviewed the financial outputs of each scenario analysis to determine the feasibility of the alternative plan, the reasonableness of the proposed capital structure and the ability for each alternative plan's cash flows to support the debtor's operations and achieve investment grade ratings.

To respond to the disaggregation Plan filing by the Debtor, FTI moved quickly to develop and model at least four different reorganization structures. Through its review and in-depth analysis of the various scenario assumptions, FTI was able to assist the professionals and the OCC in readily evaluating and selecting an alternative plan that the OCC believed would be confirmable in the shortest period of time with the fewest legal challenges. Our modeling of an OCC plan later assisted in the first mediation between PG&E and the CPUC in 2002 and the

development of the Joint CPUC/OCC Plan.

25. Other (Category 25).

FTI did not incur any hours in this category during the Ninth Interim Period. During the overall case, FTI professionals spent a total of 49.4 hours rendering services in this category, for which FTI seeks compensation of \$15,245 summary of the FTI professionals who rendered services in this category and the corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the services rendered is filed concurrently herewith.

Services rendered by FTI professionals listed in this category included:

- a) FTI performed other tasks inherent in the administration of the case. These tasks did not consume sufficient time to warrant separate task classification.
- b) Other tasks include organizing document database, research on the rumored sale of SCE to City Light, and other tasks inherent in case administration..

26. Professional Compensation Matters (Category 26).

During the Ninth Interim Period, FTI professionals spent a total of 32.1 hours rendering services in this category, for which FTI seeks compensation of \$16,835. During the overall case, FTI professionals spent a total of 199.8 rendering services in this category, for which FTI seeks compensation of \$59,668. A summary of the FTI professionals who rendered services in this category and the corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the services rendered is filed concurrently herewith.

Services rendered by FTI professionals listed in this category included:

- a) PwC BRS filed application for employment as accountant and financial advisor to the OCC.

1 b) FTI submitted updates to the Court reflecting disclosure of relationships of
2 PwC BRS and later, FTI and various parties in the case, in continuing support
3 of the retention of FTI as accountant and financial advisor to the OCC.

4 c) FTI prepared and filed an employment application and supporting declarations
5 to retain FTI, as successor to PwC's BRS Practice, as accountant and financial
6 advisor to the OCC.

7 d) FTI reviewed and analyzed the Interim Fee Applications of other
8 professionals and provided input to the chairperson of the Committee.

9 e) FTI attended fee application hearings for the all Interim Fee Applications and
10 reviewed UST objections to various professionals' fee applications.

11 FTI is requesting reimbursement for Unbilled Fees comprising of \$64,951 related
12 to time spent insuring compliance with confidentiality agreements as well as for the initial
13 conflict check and establishing ethical walls.

14 **27. Settlement Agreement Testimony Preparation (Category 27).**

15 FTI did not incur any hours in this category during the Ninth Interim Period.

16 During the overall case, FTI professionals spent a total of 425.5 hours rendering services in this
17 category, for which FTI seeks compensation of \$189,600.

18 A summary of the FTI professionals who rendered services in this category and the
19 corresponding amount of fees requested is included in Exhibit "2." The Billing Report for this
20 category, which sets forth a detailed description of the services rendered is filed concurrently
21 herewith.

22 Services rendered by FTI professionals listed in this category included:

23 a) FTI prepared testimony for filing with the CPUC in support of the Settlement
24 Agreement.

1 b) FTI reviewed intervenor opening briefs filed with the CPUC and prepared
2 rebuttal testimony addressing their issues.

3 c) FTI reviewed and responded to various discovery requests from intervenors.

4 d) FTI performed in-depth research to support its findings that the Settlement
5 Agreement is in the best interest of the CPUC, PG&E, the OCC and
6 ratepayers. In support of its findings, FTI performed the following analysis:

- 7 • Comparisons of the projected financial results of PG&E under the
8 Settlement Agreement terms to the financial results of a comparable peer
9 group of utilities.
- 10 • Comparison of the projected financial results of PG&E to PG&E's
11 historical performance prior to the energy crisis.
- 12 • Verified the accuracy of the "PG&E Bankruptcy Proposed Settlement Plan
13 Data Sheet" prepared by CPUC staff for information such as (1) foregone
14 dividends (2) value of the conservation easements or donations to public
15 agencies of 140,000 acres of watershed lands, and (3) rate calculation and
16 the impact of the Regulatory Asset.
- 17 • Researched the different definitions of Head Room per the Settlement
18 Agreement as it compares to the traditional definition of Head Room.

19 FTI further researched the reasonableness of other quantitative and qualitative
20 factors of the Settlement Agreement. The findings from FTI's analysis were incorporated into
21 the Testimony of Thomas E. Lumsden, which was filed in the CPUC hearings in support of the
22 Settlement Agreement.

23 **28. Settlement POR and Disclosure Statement (Category 28).**

24 During the Ninth Interim Period, FTI professionals spent a total of 153.1 hours

1 rendering services in this category, for which FTI seeks compensation of \$82,289. During the
2 overall case, FTI professionals spent a total of 345.3 hours rendering services in this category,
3 for which FTI seeks compensation of \$187,234. A summary of the FTI professionals who
4 rendered services in this category and the corresponding amount of fees requested is included in
5 Exhibit "2." The Billing Report for this category, which sets forth a detailed description of the
6 services rendered is filed concurrently herewith.

7 Services rendered by FTI professionals listed in this category included:

- 8 a) FTI reviewed and summarized key terms of the Settlement Agreement
9 and tied these terms to numerous drafts of the Settlement Plan of
10 Reorganization and Disclosure Statement to be filed with the court.
11
12 b) FTI reviewed and analyzed proposed modifications to the descriptions
13 in the POR and Disclosure Statement.
14
15 c) FTI reviewed and analyzed the hedging structure to lock in lower
16 financing costs at PG&E Company.

17 FTI spent considerable time reviewing and agreeing terms of the Settlement Agreement
18 to drafts of the Disclosure Statements and Plan of Reorganization documents before they were
19 filed with the court. FTI's thorough understanding of the financial terms of the Settlement
20 Agreement helped to insure the filed Disclosure Statement and POR documents accurately
21 reflected the settlement terms agreed in settlement negotiations and that the proposed
22 modifications were in the best interest of all parties.

23 **29. Subcommittee Matters (Category 29).**

24 FTI did not incur any hours in this category during the Ninth Interim Period.
25 During the overall case, FTI professionals spent a total of 773.9 hours rendering services in this
26 category, for which FTI seeks compensation of \$319,870. A summary of the FTI professionals
27 who rendered services in this category and the corresponding amount of fees requested is
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1 included in Exhibit "2." The Billing Report for this category, which sets forth a detailed
2 description of the services rendered is filed concurrently herewith.

3 Services rendered by FTI professionals listed in this category included:

- 4 a) FTI prepared for and participated in numerous meetings and teleconferences
5 with the OCC's Plan Subcommittee to evaluate plan alternatives, discuss the
6 reasonableness of supporting plan assumptions, and strategize on steps for
7 achieving confirmation of the Joint CPUC/OCC Plan of Reorganization.
8
9 b) FTI also reported time in this category for subcommittee review and discussions
10 on the Settlement Agreement and Plan confirmations.
11
12 c) FTI served as an active coordinator of the Financial and Regulatory committees
13 with Saybrook and Milbank.

14 FTI played an active role in developing and evaluating alternative plan scenarios
15 with the OCC Plan Subcommittee. FTI's in-depth knowledge of PG&E's operations and the
16 CPUC regulatory framework aided the committee in rapidly creating a plan that would face
17 fewer legal and financing challenges than either of the previous plans filed in the case. This
18 effort involved activities with the Committee Counsel and Saybrook representatives. This
19 distribution of work among the Committee members has enabled coordinated direction and
20 accelerated completion of many of the tasks outlined above. Further this work was useful in
21 subsequent discussions with the CPUC on its proposed plan and in Settlement negotiations.

22 **30. Tax Review (Category 30).**

23 FTI did not incur any hours in this category during the Ninth Interim Period.
24 During the overall case, FTI professionals spent a total of 345.1 hours rendering services in this
25 category, for which FTI seeks compensation of \$151,737. A summary of the FTI professionals
26 who rendered services in this category and the corresponding amount of fees requested is
27 included in Exhibit "2." The Billing Report for this category, which sets forth a detailed
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description of the services rendered is filed concurrently herewith.

Services rendered by FTI professionals listed in this category included:

- a) FTI reviewed, analyzed and summarized the tax consequences to the Debtor and the Creditors of the various proposed plans of reorganization.
- b) FTI discussed and analyzed key elements of the Debtor's pending IRS ruling request to determine the likelihood of the Debtor receiving a favorable ruling on the tax treatment of the Debtors Disaggregation Plan of Reorganization.
- c) FTI monitored the status of the Debtor's pending IRS ruling request and the tax sharing agreement proposed by the CPUC.
- d) FTI reviewed and analyzed real estate issues and transfer tax issues in transferring property from PG&E to non-profit organizations in the Settlement POR.
- e) FTI reviewed and analyzed tax related matters between PG&E Corp and its subsidiaries.

FTI researched and summarized key tax issues of the Debtor's Plan of Reorganization, the Joint Plan of Reorganization and the Settlement Agreement and Settlement POR for the Committee and the tax impact of alternative plan proposals, highlighting the potential financial impact on the Debtor and any potential tax risks to the creditors. FTI also kept the Committee apprised of the status on IRS submissions and the implications of the CPUC's proposed tax sharing agreement.

31. Travel Time (Category 31).

During the Ninth Interim Period, FTI professionals spent a total of 1.2 hours rendering services in this category, for which FTI seeks compensation of \$750. During the overall case, FTI professionals spent a total of 36.6 hours rendering services in this category, for which FTI seeks compensation of \$20,455. A summary of the FTI professionals who rendered

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

Services rendered by FTI professionals listed in this category included:

- a) This category includes the time required for FTI professionals to travel to case related meetings after September 11, 2001.

FTI's policy is to bill clients for the time associated with travel at full rates, where it is not possible to perform other client work. This is primarily associated with travel during the regular working day, and includes travel to airports via taxi, time spent at airports and on the flight itself. The Court previously removed \$52,315 in fees for pre-September 11, 2001 travel incurred during the first interim Fee Application. FTI is requesting reimbursement of Unbilled Fees for staff traveling on this case in the amount of \$65,645 during the Final Fee Application period.

32. Request For Reimbursement of Certain Previously Unbilled Costs and Expenses (Category 32).

Throughout the pendency of this case, FTI has received or requested a total of \$8,205,279 as payment for the fees and expenses in this Case. However, the actual and necessary fees and expenses incurred on behalf of this matter have totaled \$8,514,853. As discussed below, the difference of \$309,574 represents real fees that FTI typically charges its clients with respect to services rendered on behalf of both debtor and non-debtor clients.

During the case through the interim fee application process, FTI did not seek the reimbursement of \$248,609 in fees for services based on this Court's guidelines, FTI is herein requesting reimbursement for certain of these unbilled fees from PG&E in the amount of \$144,149 (the "Unbilled Fees") which includes (1) \$64,625 in fees for travel time above and beyond the two hour maximum outlined in the Court's Memorandum Decision, (2) \$14,573 in

1 fees for paraprofessional services performed by FTI previously reimbursed at a rate of \$40/hour
2 which represented a substantial reduction from FTI's standard paraprofessional billing rate of
3 \$85/hour, and (3) \$64,951 in fees for compliance with Court requirements for relationship
4 checking of parties in interest in the case and maintaining and reporting on ethical walls as
5 directed by the Court. Indeed, if the Court grants this request for payment of these additional
6 Unbilled Fees, FTI will still have waived \$119,033 of actual fees that it is not seeking to collect,
7 incurred relating to the completion of extensive relationship checking and reporting to the Court,
8 and time expended on the filing of fee applications. Moreover, no creditor will be prejudiced by
9 reimbursement of 100% of the Unbilled Fees.

10 Over the course of the Case, FTI has taken a sizeable reduction in the fees and
11 expenses for which it would normally seek reimbursement from other debtor and non-debtor
12 clients. In some instances, the reductions were based on the UST Guidelines and Court
13 Guidelines. In other instances, the reductions were based on the Court's Memorandum Decision
14 Regarding Applications for Interim Applications for Professionals filed December 12, 2001 (the
15 "Memorandum Decision"). Finally as was the case the with the rate reductions discussed above,
16 certain of the reductions were voluntary in light of the financial hardship facing the Debtor and
17 the precarious state of the regulatory environment at the outset of the Case.

18 The general guidelines on fee applications exist for good reason in a typical bankruptcy
19 case to protect creditors and provide the Debtor with a greater chance of recovery. These
20 reasons become less meaningful when, at the end of the case, it is clear that the Debtor is solvent.
21 Indeed, the Court itself has acknowledged the need to be flexible in the reimbursement of fees
22 and expenses. See e.g. Practices and Procedures in Judge Montali's Court, Section J (allowing
23 flexibility on travel time). Moreover, the UST Guidelines often defer to a court's discretion to
24 determine the extent of the reimbursement. Guideline 17 of the UST Guidelines regarding travel
25 time provides as follows: "[i]f significant airplane travel time is expected in a case, specific
26 guidelines should be obtained for that case." Guideline For Compensation And Expense
27 Reimbursement of Professionals and Trustees.

1 In this case, under the terms of the Settlement Plan of Reorganization, we have an
2 extraordinary circumstance wherein the Debtor is solvent and all creditors have been, or will be,
3 paid in full, most with interest. Thus, FTI seeks to be treated *pari passu* with other creditors and
4 receive payment in full on its claim. In addition, FTI seeks reimbursement on the following
5 grounds:

6 First, the additional Unbilled Fees for which the Committee and its advisors now
7 seek reimbursement were necessary fees that were required by the day to day circumstances of
8 the Case and incurred at the direction of the Committee or the Court. As a co-proponent of both
9 the Joint Plan and the Settlement Plan, FTI's role in this case demanded the expenditure of a
10 large amount of time with respect to (i) travel time for its professionals (ii) paraprofessional
11 services rendered to support this Case and (iii) monitoring and reporting of relationships of
12 parties in interest in the case. For example, certain hearings required FTI to attend in person,
13 which required FTI professionals to spend many hours in transit to and from San Francisco.
14 Additionally, the abundance of paper produced and handled during the Case required extensive
15 involvement of FTI's paraprofessionals. The size of the case, extensive volume of investors,
16 creditors and significant litigation activity involving energy suppliers required substantial
17 expenditure of professional time to evaluate, report and monitor the relationships for the Court.

18 Second, FTI has proactively attempted to minimize the costs incurred at the
19 expense of the Debtor. For instance, FTI ever-increasingly utilized e-mail transmission of
20 documents and correspondence in lieu of mail and facsimile transmission. In addition, FTI
21 participated in numerous hearings both in the CPUC and Bankruptcy by telephone or internet as
22 opposed to in person. These actions helped to reduce travel and attendant expenses to a
23 minimum.

24 Accordingly, based upon the fact the Debtor is solvent and the fact that the
25 Unbilled Fees are fees that FTI would normally charge its solvent debtor and non-debtor clients,
26 FTI hereby requests the Court award additional reimbursement for the Unbilled Fees in the
27 amount of \$144,149.
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IV. SUMMARY OF ACTUAL AND NECESSARY EXPENSES INCURRED BY FTI

FTI maintains records of all actual and necessary out-of-pocket expenses incurred and typically charged in connection with rendering professional services to its clients in the ordinary course of its business practice. As is typical of FTI's practice when representing creditor committees, FTI has reduced to cost or not charged certain of these out-of-pocket expenses to the estate in accordance with the UST Guidelines and the Court Guidelines and to ensure the reasonableness of FTI's fee and expense request. A brief explanation of certain costs incurred and charged to the estate is set forth below:

- a) FTI does not charge its clients for photocopying done in-house; copying done by third-party services is charged at cost;
- b) FTI charges its clients for document storage and retrieval services, computer research and other specialized searches and services, such as messengers and storage retrievals, at cost;
- c) FTI charges its clients for mileage at IRS limits, (if sought) and parking costs incurred by its professionals in connection with services rendered, at cost;
- d) FTI charges its clients for transportation and travel-related costs including out-of-town meals, excluding lunches, incurred by its professionals when working on specific client matters, at cost; and
- e) FTI normally charges its clients for the cost of overtime and weekend meals and transportation when pressing client matters require the professional to work past normal office hours; however, in accordance with the UST Guidelines and the Court Guidelines, no such charges are included in this Final Application.

Furthermore, it should be noted that FTI has taken a reduction of \$60,965 from the amount of expenses for which it would normally seek reimbursement from its non-debtor clients. This reduction is in compliance with both Practices and Procedures in Judge Montali's

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Court and UST Guidelines For Compensation And Expense Reimbursement and represent actual costs incurred to the benefit of the Committee and the Debtor and for which FTI has not sought reimbursement.

V.

COMPENSATION REQUESTED AND RELEVANT LEGAL STANDARD

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

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

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

VI.

CONCLUSION

1 For the reasons set forth above and pursuant to Bankruptcy Code sections 330 and
2 331, Bankruptcy Rule 2016, the Court Guidelines, the UST Guidelines and the standards adopted
3 by courts in awarding accountants' and financial advisors' fees and costs, FTI submits that the
4 fees for services rendered and costs and expenses incurred on behalf of the Committee during the
5 Final Application Period in the total amount of \$8,349,875 are reasonable and should be allowed
6 and paid in full.

7 As previously mentioned, FTI purchased all outstanding receivables of the BRS
8 Practice, including receivables related to FTI's work as accountants and financial advisors to the
9 Official Committee of Unsecured Creditors in the Pacific Gas and Electric bankruptcy case. No
10 agreement or understanding of any kind or nature exists between FTI and any other person or
11 entity for the sharing, division, or payment of any portion of the compensation awarded for our
12 services rendered or expenses incurred in connection with the representation of the Committee in
13 the bankruptcy case.

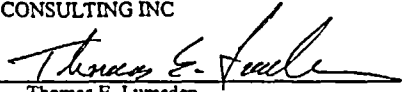
14 WHEREFORE FTI respectfully requests that this Court enter an order:

- 15 1. Approving this Ninth Interim and Final Application in its entirety;
- 16 2. Approving a final award of compensation in the amount of \$8,061,646 for
17 professional services rendered (including Unbilled Fees) and reimbursement of costs and
18 expenses incurred in the amount of \$288,229 for a total amount of \$8,349,875;
- 19 3. Authorizing and directing PG&E to immediately pay to FTI the allowed
20 amounts, less any such amounts already paid pursuant to the Order Establishing Interim Fee
21 Application and Expense Reimbursement Procedure; and
- 22 4. Granting such other and further relief as the Court deems just and proper.
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1 DATED: July 12, 2004

1 Respectfully submitted.

2 FTI CONSULTING INC

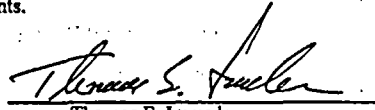
3 By: 
4 Thomas E. Lumsden

5 Accountants and Financial Advisors to Official Committee
6 of Unsecured Creditors

CERTIFICATION

I, Thomas E. Lumsden, am the professional designated by FTI Consulting, Inc. to ensure compliance with the United States Bankruptcy Court Northern District of California Guidelines for Compensation and Expense Reimbursement of Professionals and Trustee ("Court Guidelines"). I served as the senior managing director for FTI Consulting Inc. in connections with this matter. I certify that (a) I have read the Final Interim Application; (b) to the best of my knowledge, information and belief, formed after reasonable inquiry, the compensation and expense reimbursement sought is in conformity with the Court Guidelines, except as specifically noted in the Application; and (c) the compensation and expense reimbursement requested are billed at rates, in accordance with practices, no less favorable than those customarily employed by FTI and generally accepted by FTI's clients.

DATED: July 12, 2004


Thomas E. Lumsden

DECLARATION OF THOMAS E. LUMSDEN

I, Thomas E. Lumsden, declare:

1. I am over eighteen years of age and, if called upon, I could and would testify competently to the matters set forth herein. I am a senior managing director in the professional services firm of FTI Consulting, Inc. ("FTI"), successor to PricewaterhouseCooper's ("PwC") BRS Practice, and one of the senior managing directors responsible for FTI's services as accountant and financial advisor to the Official Committee of Unsecured Creditors ("Committee") in the Pacific Gas and Electric Company ("PG&E") chapter 11 case. In preparing this declaration, I have relied on my personal knowledge and on my review of the billing records and files maintained by FTI in the ordinary course of business and made by FTI professional staff substantially contemporaneous with that person's performance of services or incurrence of costs on behalf of the Committee.

2. This declaration is submitted in support of the "Ninth Interim and Final Application of FTI Consulting Inc. For Allowance and Payment of Compensation and Reimbursement of Expenses (April 11, 2001 through April 12, 2004)" (the "Final Interim Application"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Final Application. This Final Application covers the period from April 11, 2001 through and including April 12, 2004 (the "Final Application Period"). I have read the Final Application and reviewed the exhibits thereto, and each of the facts contained therein is true and correct.

3. FTI Consulting's Time Records Exhibit for the Period April 11, 2001 to April 12, 2004, filed concurrently herewith, attaches true and correct copies of records maintained by FTI in the ordinary course of FTI's business operations and reflects entries that were made substantially contemporaneously with the rendering of the services.

4. Pursuant to the Final Application, FTI seeks allowance of compensation covering 19,319.7 hours of professional time devoted to advising the Committee in PG&E's

1 bankruptcy case, resulting in the accumulation of \$7,917,497 in fees for professional services
2 rendered plus a request for Unbilled Fees in the amount of \$144,149 and \$288,229 for expenses
3 incurred, for a total amount of \$8,349,875.

4 5. It is FTI's normal business practice to charge its clients in full for services
5 rendered and for all actual and necessary costs and expenses incurred in connection with such
6 services.

7 6. FTI received no pre-petition retainer in connection with this bankruptcy
8 case.

9 7. FTI has submitted monthly fee notices and interim fee applications in
10 accordance with the interim fee procedures that were established by the Court. FTI has received
11 payments totaling \$8,120,285 in connection with the Monthly Cover Sheet and Fee Applications
12 covering the period April 11, 2001 to April 12, 2004.

13 8. No agreement or understanding of any kind or nature exists between FTI
14 and any other person or entity for the sharing, division, or payment of any portion of the
15 compensation awarded to FTI or the BRS Practice for services rendered or expenses incurred in
16 connection with our representation of the Committee in this chapter 11 proceeding, except as
17 among the employees and shareholders of FTI.

18 9. I am one of the designated professionals responsible for overseeing the
19 billing in this matter and for assuring compliance with the Guidelines of the Office of the United
20 States Trustee for the Northern District of California relating to billing (the "Guidelines").
21 Based upon my review of the Final Application submitted by FTI for the Final Application
22 Period, I believe that the Final Application complies with the Court Guidelines and the UST
23 Guidelines.

24 10. Attached hereto as Exhibit "1" is a summary of the total hours expended,
25 billing rate, and fees incurred by each FTI professional during the Final Application Period.
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1 11. Attached hereto as Exhibit "2" and "Exhibit 2-1" and "Exhibit 2-2" and
2 "Exhibit 2-3" is a summary of each category of services, setting forth the name of each
3 professional who expended time in that category and the total hours and amount billed by each
4 professional in that category during the Final Application Period.

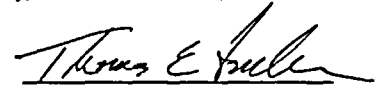
5 12. Attached hereto as Exhibit "3" are Expense Summary and Expense Detail
6 reports by individual and itemized total expenses for which reimbursement is sought.

7 13. Attached hereto as Exhibit "4", is a summary of meetings that more than
8 two FTI professionals attended with a description of the relative importance of each team
9 member and the purpose of their involvement at the meetings.

10 14. Attached hereto as Exhibit "5", is a copy of the Declaration of Clara Yang
11 Strand, executed on, in support of the Final Application of FTI Consulting.
12

13 I declare under penalty of perjury under the laws of the United States of America
14 that the foregoing is true and correct.

15 Executed this 12th day of July, 2004 at San Francisco, California.

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18 Thomas E. Lumsden
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