



Pacific Gas and Electric Company
Case No. 01-30923 DM
Chapter 11 Petition filed 4/6/01

**Report of Professional Fees and Expenses for Current Period (8/01/03 - 11/30/03) and
Cumulative Case to Date (4/06/01 -11/30/03)**

Prepared by
Office of the United States Trustee
San Francisco, California
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SUMMARY

● **Current & Cumulative Fees and Expenses**

Pacific Gas and Electric Company ("PG&E") filed Chapter 11 on April 6, 2001. This is the eighth hearing in which professionals employed in the bankruptcy case are seeking interim approval of their fees and expenses. This fee hearing generally covers the period from August - November, 2003. The fees and expenses which are being sought for the current period and which have been incurred in the case since its inception are:

Fee Application and Period Covered		Hours	Fees	Expenses	Total	% of Total
1st	April - July, 2001	37,802.8	\$12,915,384	\$720,048	\$13,635,432	10.68%
2nd	August - November, 2001	40,235.1	14,523,083	947,596	15,470,679	12.12%
3rd	December, 01 - March, 02	53,463.0	16,967,095	975,666	17,942,761	14.06%
4th	April - July, 2002	52,621.4	16,571,127	739,226	17,310,353	13.56%
5th	August - November, 2002	73,859.4	22,593,873	1,349,316	23,943,189	18.76%
6th	December, 02 - March, 03	59,491.5	18,311,253	1,496,514	19,807,767	15.52%
7th	April - July, 2003	28,481.8	9,906,543	422,057	10,328,600	8.09%
8 th	Current Period August - November, 2003	25,511.0	8,713,832	483,402	9,197,234	7.21%
Total through November, 2003		371,466.0	\$120,502,190	\$ 7,133,825	\$127,636,015	100.00%

● **Rough Estimate of Current Cost of PG&E's Chapter 11 Bankruptcy**

The \$127.6 million set forth above does not reflect all the professional fees and expenses incurred in PG&E's Chapter 11 bankruptcy. The Utility's parent, PG&E Corp, estimated that it has expended \$128 million as of September 30, 2003. Pursuant to the Utility's confirmed plan (as modified 12/19/03), PG&E Corp will bear the \$128 million. There are, however, other reorganization costs which ultimately will be borne by the Utility. The Utility may reimburse the CPUC for its professional and financing fees related to the reorganization. In addition, the figure above does not include certain operational expenses which the Utility incurred as it moved towards implementation of its original plan to dis-aggregate its operations into new entities. Finally, there are other professionals who were employed in the bankruptcy case who have not filed formal fee applications and, for that reason, their fees are not included in the figures above. As set forth below, the U.S. Trustee conservatively estimates the total current cost of PG&E's Chapter 11 bankruptcy between **\$378 - \$414 million.**

The Office of the U.S. Trustee offers the following rough estimate of the current cost of PG&E's Chapter 11 bankruptcy:

ROUGH ESTIMATE OF CURRENT COST OF PG&E'S CHAPTER 11 BANKRUPTCY	
Professional fees and expenses, 4/01 -11/03, as shown above	\$127,636,015
Professionals' cover sheet applications for 12/03	2,051,371
Parent PG&E Corp's estimated fees/expenses as reported in its 9/30/03 10Q report filed with the SEC (These costs will be borne by the parent PG&E Corp.)	128,000,000
CPUC's estimated fees/expenses (7/31/03 disclosure statement) (The CPUC may seek reimbursement of these costs from the Utility.)	46,000,000
Plan implementation expenses (reported in PG&E Corp's SEC filings)	58,000,000
Celerity Consulting (services through 11/30/03 as reported in PG&E's monthly operating report as reorganization related)	13,845,625 ^{1/}
Berger & Associates (services through 11/30/03 as reported as above)	2,289,860
Rough Estimate of Current Cost of Chapter 11 Bankruptcy	\$377,822,871

Alternatively, a rough estimate can be reached by using the total reorganization expenses reported by PG&E Corp in its consolidated financial statements filed with the SEC. PG&E Corp.'s consolidated financial statements, as filed with the SEC, reported that approximately \$368 million in reorganization expenses attributable to the Utility's Chapter 11 bankruptcy were incurred from April, 2001 to September 30, 2003: \$97 million in 2001, \$155 million in 2002, and \$116 million as of September 30th of this year. If you add the \$46 million in reimbursement to be sought by the CPUC to the \$368 million reported by PG&E Corp, an estimate of total current costs is \$414 million.

- **Electronic Transmission of Detailed Time and Expense Entries**

With a few exceptions, the firms employed in the PG&E case are submitting their detailed time and expense entries to the Office of the U.S. Trustee in electronic form. The electronic transmission of fees has expedited the review process, afforded the opportunity for in-depth analysis, and resulted in the ability to provide the court and interested parties with a comprehensive overview of the fees incurred in the case.

^{1/} Celerity Consulting has provided the Office of the U.S. Trustee with copies of its billing statements. Celerity has billed in excess of \$21.7 million for services since its nunc pro tunc employment in the bankruptcy case. The firm's services for this billing period included \$3.2 million in services described as "New Business Legal Review"; those fees are not included in PG&E's numbers above. None of their fees have been applied for or allowed by the court.

● “Focus Areas”

The Office of the U.S. Trustee has defined certain focus areas which generally correspond to the substantive billing matters and key issues which arose in the case. Using the professionals’ billing categories when available and extracting information by sorting techniques when not readily available, the Office of the U.S. Trustee has combined the firms’ fees associated with each focus area to approximate the overall cost of each matter. Based on the method employed by the Office of the U.S. Trustee, the fees incurred for the subject billing period and case to date in various key matters in the case are as follows:

FOCUS AREA (As defined by U.S. Trustee)	Cumulative to Date (4/6/01 - 11/30/03)		Current Period (8/03 - 11/03)	
	Hours	Fees	Hours	Fees
Original Impasse - PG&E, CPUC, et al	55,781.1	\$17,402,522	1,710.1	\$ 662,500
<i>Above includes Federal Filed Rate Case</i>	<i>20,918.3</i>	<i>\$5,782,558</i>	<i>216.5</i>	<i>66,768</i>
The Earlier Competing Plans				
PG&E’s Plan	97,646.5	\$37,428,857	143.1	50,220
<i>Above includes Preemption Appeal(s)</i>	<i>5,997.3</i>	<i>1,803,530</i>	<i>102.6</i>	<i>38,336</i>
Confirmation Related Discovery	27,738.1	7,390,777	Included in Settlement Plan Below	
CPUC’s Plan (through 7/02)	2,375.4	1,010,195	0	0
Joint CPUC/OCC Plan (8/02 & forward)	8,204.6	5,085,840	0	0
Total, for Earlier Competing Plans	135,964.6	50,915,669	143.1	\$50,220
The Settlement Agreement & Settlement Plan, Disc. Stmt., Trial & CPUC hearings	14,585.3	6,506,305	11,038.5	4,513,765
Qualifying Facilities/Producers	11,587.4	3,383,254	599.8	194,388
Other Regulatory Matters	64,793.9	18,020,712	6,374.2	1,853,276
<i>Above includes FERC Refund Proceeding</i>	<i>35,048.5</i>	<i>9,424,320</i>	<i>4,055.4</i>	<i>1,213,315</i>
Claims Analysis, Review & Resolution	27,826.2	6,793,189	1,556.8	427,487
General Bankruptcy Matters	37,272.5	8,347,045	2,754.9	511,203
Creditor Committee Alternatives	422.9	210,572	0	0
Creditor Committee Matters	4,352.0	2,113,855	91.9	49,670
Other Matters (including General Operations)	18,295.7	6,222,991	1,241.6	451,303
Innisfree - Voting Agent	584.5	586,076	0	0
TOTAL	371,466.1	\$120,502,190	25,511.0	\$8,713,812

- **Key Event (August - November, 2003)**

The Settlement Plan Moved Towards Confirmation

From August through November, 2003, the settlement plan which incorporated the settlement which had been reached between the Utility, its parent and the staff of the CPUC, was put out for vote and was approved by a majority of the Utility's creditors and proceeded through a confirmation trial which commenced on November 10th and concluded on November 25, 2003. During the confirmation trial, certain objections were resolved. At the end, the objections of (a) the "municipal objectors" (City of Santa Clara, Merced Irrigation District, City of Palo Alto and the Northern California Power Agency), (b) the State of California Attorney General, and (c) the City and County of San Francisco remained. Judge Montali took the matter under submission.

The settlement agreement itself, which required approval by the CPUC, was the subject of public hearings and review by the CPUC commissioners. The CPUC hearings concluded on September 26, 2003. On November 18th, the CPUC administrative law judge issued a proposed decision recommending that the CPUC reject the settlement agreement and approve a modified agreement. Commissioner Peevey issued two alternate proposed decisions. A schedule was set for oral arguments and comments to be completed before the CPUC's next regular meeting on December 18th. Other CPUC Commissioners would issue their own alternate decisions by December 4th.

With the exception of special regulatory counsel, Heller Ehrman, the attorneys' and accountants' employed by the Utility and the creditors' committee focused on briefs, testimony, hearings, and trial involving the settlement plan in both venues. As the chart on page 3 indicates, approximately \$4.5 million of the total \$8.7 million in fees during this four month period were related to the settlement plan. For the most part, costly litigation continued to wind down. Heller Ehrman continued to represent the Utility in FERC refund proceedings. As shown in the same chart, approximately \$1.2 million of the total \$8.7 million in fees were incurred by Heller Ehrman in conjunction with FERC refund proceedings during August - November, 2003.

- **Subsequent Events**

On December 4, 2003, three CPUC Commissioners Wood, Brown and Lynch issued separate alternate proposed decisions for the CPUC's consideration.

On December 12, 2003, Judge Montali issued a Memorandum Decision approving the settlement agreement and overruling objections to confirmation of PGE's settlement plan. Judge Montali indicated he would enter a separate confirmation order confirming the reorganization plan provided that the CPUC approved the settlement agreement.

On December 16, 2003, the Utility and The Utility Reform Network (TURN) announced a successful conclusion to 11th hour negotiations by filing joint reply comments with the CPUC recommending that the Peevey Alternate 2 be modified to allow for the use of securitized financing backed by a dedicated rate component to refinance the regulatory asset which would be created as a condition of the settlement agreement. The Utility and TURN estimated that the new financing proposal would reduce ratepayer costs by about \$1 billion. The Utility's parent - PG&E Corp - further agreed that it would not seek reimbursement from the Utility for the \$128 million in professional fees it had incurred as of September 30, 2003 in the Utility's reorganization. The parent's waiver of this request would increase the amount of cash available to the Utility to pay its creditors thereby lowering the amount of required financing.

On December 18, 2003, the CPUC voted 3-2 in favor of the proposed settlement agreement as recommended by the Utility and TURN. On December 19, 2003 the CPUC issued its decision. Commissioners Lynch and Wood dissented. On the same day, the settlement agreement was executed by the CPUC, the Utility and the parent PG&E Corp. The CPUC decision stated that it would formally request the introduction of the legislation necessary to implement the dedicated rate component of the regulatory asset financing.

On December 19, 2003, the Utility, its parent and the PG&E creditors' committee filed a modified plan with the bankruptcy court incorporating the terms of the modified settlement agreement and the CPUC's decision.

On December 22, 2003, Judge Montali issued an order confirming the Utility's plan of reorganization.

On December 31, 2003, the City of Palo Alto and CPUC Commissioners Lynch and Wood filed notices of appeal of the bankruptcy court's confirmation order.

On January 5, 2004, Judge Montali signed findings of facts and conclusions of law and issued an amended Memorandum Decision approving the settlement agreement.

Attached Exhibits

- A Summary of Fees - All Firms
- B Percentage Changes in Fees from Current Billing Period vs. Previous Billing Period s (Primary Professionals)
- C Most Active Attorneys/Accountants: August - November, 2003
- D Summary of Fees - by Focus Areas
 - Supportive Schedules to Exhibit D
 - D-1 Focus - Impasse between the Utility & the State
 - D-2 Focus - Competing Plans, Discovery & Trials
 - D-3 Focus - PG&E's Plan
 - D-4 Focus - Qualifying Facilities, Producers, Suppliers
 - D-5 Focus - Other Areas Including Claims, General Bankruptcy Matters, Other Regulatory
- E Howard, Rice, Nemerovski, Canady, Falk & Rabkin
 - E-1 Howard Rice by Focus Area
 - E-2 Howard Rice Services Performed by Attorney
 - E-3 Howard Rice by Attorney
- F Heller Ehrman White & McAuliffe LLP
 - F-1 Heller by Focus Area
 - F-2 Heller by Attorney
- G Cooley Godward LLP
 - G-1 Cooley by Focus Area
 - G-2 Cooley by Attorney
- H Milbank, Tweed, Hadley & McCloy LLP
 - H-1 Milbank by Focus Area
 - H-2 Milbank by Attorney
 - H-3 Milbank Most Active Attorneys
 - H-4 Milbank CPUC/Regulatory Category
- I FTI Consulting, Inc. (formerly Pricewaterhouse)
 - I-1 FTI by Focus Area
 - I-2 FTI by Accountant
 - I-3 FTI - Summary of Services Performed by Accountant