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50-275/323

9 Counsel for Official Committee
10 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.

Case No. SF 01-30923 DM

Chapter 11

**DECLARATION OF EDWIN F. FEO IN
SUPPORT OF SECOND INTERIM
APPLICATION OF MILBANK, TWEED,
HADLEY & McCLOY LLP FOR PAYMENT
OF LEGAL FEES AND EXPENSES
(AUGUST 1, 2001 THROUGH NOVEMBER
30, 2001)**

Hearing:

Date: February 26, 2002
Time: 9:30 a.m.
Place: 235 Pine Street, 22nd Floor
San Francisco, CA

A001

Add: Kids Ogc Mail Center

1 I, Edwin F. Feo, declare as follows:

2 1. I am an attorney duly licensed to practice law in the State of California. I am
3 a partner in the law firm of Milbank, Tweed, Hadley & McCloy LLP ("Milbank"), counsel for
4 the Official Committee of Unsecured Creditors ("Committee") in the Pacific Gas and Electric
5 Company ("PG&E" or "Debtor") chapter 11 case (the "Case"), and I am one of the attorneys
6 responsible for Milbank's representation of the Committee in the Case. I make this Declaration
7 in support of the "Second Interim Application of Milbank, Tweed, Hadley & McCloy LLP For
8 Allowance and Payment of Compensation And Reimbursement of Expenses (August 1, 2001
9 Through November 30, 2001)" (the "Application"). I have personal knowledge of the facts
10 stated in this Declaration and, if called upon to do so, I could and would testify competently
11 thereto.
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13 2. As co-chair of Milbank's utility practice, my practice focuses on the electric
14 power industry. I have worked extensively with regulated public utilities, other energy
15 companies and their creditors and, as a result, have accumulated expertise in the regulatory
16 issues presented in this case. Given my experience in this area of law, I was the partner in
17 charge of supervising and directing all legal work performed at Milbank relating to the research,
18 and analysis of the regulatory and legislative processes at issue in the case. I am personally
19 familiar with all of the work of Milbank lawyers pertaining to regulatory and legislative matters
20 that is included in the Application.
21

22 3. I have reviewed the time records submitted by Milbank relating to this work.
23 The amount of time incurred by each lawyer at Milbank, and the rates charged for this
24 specialized work by each lawyer were reasonable, particularly given the complexity, importance
25 and nature of problems and issues addressed. In my experience, the compensation that Milbank
26 now seeks for this work is reasonable based on the skills of the lawyers who have performed this
27 work and the level of effort required to advise clients with respect to the issues in the case,
28 particularly in light of the rapidly evolving regulatory and legislative environment.

1 4. Milbank performed the services described in the Application as specifically
2 requested by the Committee. Based on this work, Milbank would provide advice to the
3 Committee on what course it should take – either jointly with the Debtor and its counsel, or,
4 when appropriate, in the independent interests of the creditors and the Debtor's estate. The
5 Committee depended on advice from Milbank, as Committee counsel, for ongoing and intensive
6 research, analysis, and advice on the regulatory and legislative issues relevant to the Debtor
7 throughout the course of the case.

8 5. In general, Milbank's regulatory and legislative services for the Committee
9 have been essential in enabling the Committee to develop an understanding of critical issues such
10 as (a) the Debtor's cash flows, both pre- and post-petition, (b) the value of the Debtor's assets,
11 which are heavily dependent on their regulatory treatment, (c) the nature and amount of certain
12 claims, (d) the feasibility of the Debtor's Plan of Reorganization (the "Plan") and of any
13 alternative plans that may have been considered by the Debtor or the Committee, and (e) the
14 nature of the Debtor's business. In addition, Milbank's level of regulatory work was necessary
15 to adequately represent the Committee in discussion with the Debtor's legal representatives. In
16 order to provide the best possible legal representation to the Committee, Milbank has been
17 required to analyze proceedings and developments at both the federal and state level, since any
18 one decision or change may significantly impact the interests of the Debtor and the Committee.
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20 6. Category 26 of Exhibit 1 of the Application covers time analyzing and
21 advising on the Federal Energy Regulatory Commission ("FERC") orders and proceedings
22 regarding, among other things, the payment of refunds for wholesale sales of electricity in
23 California, creditworthiness standards in the California Independent System Operator tariff, the
24 responsibility of the California Department of Water Resources ("DWR") for the full "net short"
25 position of PG&E, and challenges to DWR's wholesale contracts. FERC orders and proceedings
26 are relevant to the determination of claims of generators against the Debtor, claims by the Debtor
27 against generators, the rules of the market in which the Debtor sells and buys energy and other
28 services, the ability of the Debtor to claim procurement costs through retail rates, the terms under

1 which Debtor may transfer certain assets, the obligations of the Debtor with respect to the net
2 open position, the obligations of the Debtor to the DWR , and the potential claims by the DWR
3 against the Debtor. Based on the direction of the Legislative and Regulatory Subcommittee of
4 the Committee or of the Committee itself, Milbank attended meetings, analyzed orders,
5 performed research and advised the Committee on these issues and the impact on the estate.

6
7 7. Category 27 of Exhibit 1 of the Application covers time analyzing and
8 advising on the California Public Utilities Commission's ("CPUC") orders and proceedings
9 regarding, among other things, the DWR's Revenue Requirement and the allocation thereof to
10 PG&E, the valuation of PG&E's Utility Retained Generation ("URG"), the Rate Agreement
11 between the CPUC and the DWR, the investigation into whether PG&E violated the CPUC's
12 order authorizing the formation of PG&E Corp., the repayment of amounts owed Qualifying
13 Facilities, the procurement obligations of PG&E, and the monitoring of meetings and hearings
14 where any one of a number of these issues were discussed. The CPUC proceedings and orders
15 are relevant to a determination of the claims against the Debtor, an evaluation of the rates and
16 revenues of Debtor, the determination of PG&E's URG Revenue Requirements and procurement
17 obligations, and an evaluation of state actions that could affect the estate, including the issuance
18 of revenue bonds for the repayment of earlier power costs, the suspension of direct access, the
19 renegotiation of certain power contracts, an assertion of jurisdiction by the CPUC over the
20 holding company, and an investigation to determine whether the parent holding company has a
21 duty to fund the working capital requirements of PG&E. Based on the direction of the
22 Legislative and Regulatory Subcommittee of the Committee and of the Committee itself,
23 Milbank attended meetings, analyzed orders, performed research and advised the Committee on
24 these issues and the impact on the estate.

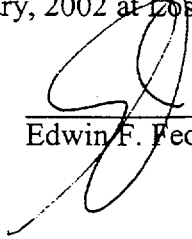
25 8. Category 28 of Exhibit 1 of the Application covers time on the matters related
26 to obtaining regulatory approvals for the Plan and advising the Committee with respect to such
27 regulatory approvals. The Plan's implementation requires numerous approvals from the FERC,
28 Nuclear Regulatory Commission, and the Securities and Exchange Commission. In a Support

1 Agreement between the Committee and the Plan proponents entered into on September 20, 2001,
2 the Committee agreed to advocate and support all approvals and required orders concerning the
3 Plan. This necessitates the direct participation and active involvement in the regulatory
4 proceedings initiated to implement the Plan. Thus, the regulatory work in this category was
5 clearly relevant due to the Support Agreement and its promise of the Committee's active
6 involvement in the extensive regulatory authorizations necessary for Plan implementation.
7 Based on the direction of the Legislative and Regulatory Subcommittee of the Committee and of
8 the Committee itself, Milbank performed research, analyzed proposed applications and advised
9 the Committee on these issues and the impact on the estate and the proposed plan of
10 reorganization.

11 9. Category 29 of Exhibit 1 of the Application covers time on the matters related
12 to an evaluation of state and federal legislation relevant to the Debtor. Bills passed by the State
13 Legislature in 2001 affected the estate and many of the bills that were introduced, if passed,
14 would have affected the claims made against the Debtor, claims by the Debtor against third
15 parties, or the use or disposition of assets of the Debtor. Various legislative proposals for the
16 implementation of a Memorandum of Understanding between the State and Southern California
17 Edison Company were analyzed as relevant to considering Plan alternatives based on the
18 agreements reached by the state and other investor owned utilities. In addition, Congress
19 considered several legislative proposals in response to the energy crisis in California that would
20 have affected claims against the Debtor and potentially its reorganization. Based on the direction
21 of the Legislative and Regulatory Subcommittee of the Committee and of the Committee itself,
22 Milbank analyzed legislation, performed research and advised the Committee on these issues and
23 the impact on the estate and the proposed plan of reorganization.
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1 I declare under penalty of perjury under the laws of the United States of America
2 that the foregoing is true and correct.

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4 Executed this 11th day of January, 2002 at Los Angeles, California.

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8 Edwin F. Feo
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