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10 Accountants and Financial Advisors for Official  
11 Committee of Unsecured Creditors  
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**UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION**

In re

PACIFIC GAS AND ELECTRIC  
COMPANY, a California corporation,

Debtor.

Case No. SF 01-30923 DM

Chapter 11

**SEVENTH INTERIM APPLICATION OF  
FTI CONSULTING INC. FOR  
ALLOWANCE AND PAYMENT OF  
COMPENSATION AND  
REIMBURSEMENT OF EXPENSES  
(APRIL 1, 2003 THROUGH JULY 31, 2003);  
DECLARATION OF THOMAS E.  
LUMSDEN IN SUPPORT THEREOF**

Hearing:

Date: November 13, 2003

Time: 1:30 PM

Place: 235 Pine Street, 22<sup>nd</sup> Floor  
San Francisco, CA

50-275/323

**FILED**

SEP 12 2003

UNITED STATES BANKRUPTCY COURT  
SAN FRANCISCO, CA

BKRP01

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 will be entitled to all payments to be made by the Debtors after the Closing Date for  
16 any outstanding receivables related to BRS services. It is anticipated that FTI would assume the  
17 responsibility for filing a single, final fee application for pre-Closing Date BRS services and  
18 post-Closing Date FTI services at the conclusion of these proceedings. As such, as outlined  
19 above, FTI respectfully submits this Seventh Interim Fee Application for services rendered by  
20 FTI for the period from April 1, 2003 through July 31, 2003 to the Official Committee of  
21 Unsecured Creditors (the "Committee").

22  
23 **I.**

24 **INTRODUCTION**

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

1 Bankruptcy Procedure (the "Bankruptcy Rules"), the Office of the United States Trustee for the  
2 Northern District of California Guidelines (the "UST Guidelines"), and the United States  
3 Bankruptcy Court Northern District of California Guidelines for Compensation and Expense  
4 Reimbursement of Professionals and Trustee ("Court Guidelines"). Through this Seventh  
5 Interim Application, FTI seeks (i) interim approval and allowance of \$727,043 in fees accrued  
6 and \$17,754 in expenses incurred for services rendered by FTI on behalf of the Committee  
7 during the period April 1, 2003 through and including July 31, 2003.

8 During the Seventh Application Period, FTI professionals spent a total of 1,610.3 hours  
9 rendering services to the Committee in connection with the PG&E bankruptcy case at a blended  
10 hourly rate of \$451.50. FTI also incurred \$17,754 in costs and expenses in connection with  
11 those services, for which FTI is requesting reimbursement. Accordingly, FTI seeks allowance  
12 and payment of a total of \$744,797 for services rendered and reimbursement of costs and  
13 expenses incurred during the Seventh Application Period. To date, PG&E has made payments  
14 for fees in the amount of \$415,965 and expenses in the amount of \$10,463 on account of the  
15 Monthly Cover Sheet Applications for the period of April 1, 2003 through July 31, 2003. These  
16 amounts reflect the cover sheet applications for April 1, 2003 through June 30, 2003; the July 31,  
17 2003 application has not yet been paid reflecting \$202,023 in fees and \$7,312 in expenses. The  
18 services and costs for the Seventh Application Period are described below and are detailed in the  
19 exhibits filed concurrently herewith.

## 20 21 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  
28 the Bankruptcy Code.

1  
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,  
6

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

- 10 (a) Assistance to the Committee in the review of financial related disclosures  
11 required by the Court, including the Schedules of Assets and Liabilities,  
12 the Statement of Financial Affairs and Monthly Operating Reports;  
13 (b) Assistance with a review of the Debtor's short-term cash management  
14 practices;  
15 (c) Advice and guidance to the Committee with respect to utility accounting  
16 and electric and gas utility operating elements, including elements of rate  
17 making, cost recovery and the financial impact of regulatory decisions;  
18 (d) Assistance and advice to the Committee with respect to the value of the  
19 Debtor's operating assets and make recommendations regarding the  
20 highest and best use, operation, and ultimate disposition of such assets;  
21 (e) Assistance in the review of financial information distributed by the Debtor  
22 to creditors and others, including, but not limited to, cash flow projections  
23 and budgets, cash receipts and disbursement analysis, analysis of various  
24 asset and liability accounts, and analysis of proposed transactions for  
25 which Court approval is sought;  
26 (f) Attendance at meetings and assistance in discussions with the Debtor,  
27 regulators, State agencies, mortgage holders and other secured lenders in  
28

1 this chapter 11 case, the U.S. Trustee, other parties in interest and  
2 professionals hired by the same, as requested;

- 3 (g) Assistance in the review and/or preparation of information and analysis  
4 necessary for the confirmation of a Plan of Reorganization in this chapter  
5 11 case;
- 6 (h) Assistance to the Committee and its counsel in the preparation and  
7 evaluation of potential litigation;
- 8 (i) Assistance in the discharge of the Committee's duties and functions in this  
9 case, including, but not limited to, compilation of material required for  
10 court testimony; and
- 11 (j) Render such other general business consulting or such other assistance as  
12 the Committee or its counsel may deem necessary that are not duplicative  
13 of services provided by other professionals in this proceeding.  
14

15 FTI incorporates by reference the overview of case activity presented in the Seventh  
16 Interim Application of Milbank Tweed Hadley & McCloy LLP for Allowance and Payment of  
17 Compensation and Reimbursement of Expenses. The Debtor continues to operate its business,  
18 and cash flow appears to be neutral pending regulatory decisions by the California Public  
19 Utilities Commission. Two competing plans have been filed in the case and confirmation  
20 hearings are still proceeding in the matter.  
21

## 22 II.

### 23 SUMMARY OF FTI'S EXPERIENCE

24

25 FTI, as successor to the BRS practice of PwC, has extensive experience in financial  
26 reorganizations and bankruptcy consulting services. Our professionals have provided services  
27 to a wide variety of industries, and as a result, FTI has accumulated a wealth of knowledge  
28

1 concerning the intricacies in these matters.

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

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

### 7 8 **III.**

#### 9 **SUMMARY OF SERVICES RENDERED BY FTI**

10 During the Seventh Application 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 during the Seventh Application Period, no attempt is made herein to  
13 detail the totality of such services. The full scope of the services rendered by FTI is set forth in  
14 detail in the billing reports filed concurrently herewith under captions entitled "Detail Reporting  
15 by Task Code Exhibit for the Period April 1, 2003 to July 31, 2003" (the "Billing Reports").  
16 However, in order to assist the Court, the United States Trustee, PG&E and other parties in  
17 interest in reviewing this Seventh Interim Application, a brief summary of FTI's billing  
18 procedures and the services rendered by FTI during the Seventh Application Period with regard  
19 to each activity code category, including certain undertakings within each category, is set forth  
20 below.

#### 21 **A. Summary Of FTI's Billing Procedures.**

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

26 In the ordinary course of its practice, FTI maintains records of time expended by  
27 professionals in rendering services to its clients. Time records are made substantially  
28

1 contemporaneously with the rendition of these professional services and are prepared by the  
2 professionals who have rendered the services. In matters such as this, time records are kept in 6  
3 minute (.1 hour) increments.

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

1 pendency of this case, we have observed electricity prices vary from hundreds of dollars per  
2 Megawatt to power prices in the \$15-30 range. We have seen natural gas prices vary by a factor  
3 of 10x the historic price average. Reported purchases of power by the DWR have varied from  
4 over \$100 million per day to under \$12 million per day during this period. There have been  
5 numerous legal challenges to actions of the Debtor, CPUC and the State of California in this  
6 case, resulting in pending appeals and legal action on these matters.

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 13,300 filings listed in the Court docket through July 31, 2003. 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  
27       Michael Hamilton is FTI's senior Utility Specialist in Accounting and Regulatory  
28 Matters. He has participated in each of the restructurings that have involved a utility for the Firm



1 over the past 25 years. He has unique knowledge of the regulatory and business environment  
2 facing utilities. Mr. Hamilton has coordinated the Committee work on plan structuring,  
3 regulatory 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.

12  
13 M. Freddie Reiss is a senior bankruptcy specialist for FTI with expertise in serving  
14 Committees and dealing with intercreditor matters. He has coordinated the Firm's negotiations in  
15 the areas of employee retention issues, employment of Debtor professionals, ordinary course  
16 motions, committee governance and plan negotiations with the Debtor and with the CPUC.

17 Rocky Ho is now a Senior Managing Director for FTI and has been responsible for  
18 coordinating staff assignments and projects for the FTI team, review of work product, quality  
19 control, and active participation in plan adjustments, and has specialized in review and  
20 coordination of all Committee response to Debtor motions and filings, litigation matters and  
21 Committee consent on expenditures.

22  
23 Allison Young is a Director for FTI and has specialized in the financial modeling, the  
24 statewide grid modeling, the cash flow analysis, the assessment of Debtor projections, the  
25 assessment of the CPUC's projections, alternative plan structures and feasibility, tax analysis of  
26 both plan proposals, and analysis of creditor claims by class.

27 Jennifer Kitchin is a Director for FTI and has specialized in the Rating Agency analysis  
28

1 of PG&E, the DWR power purchases and contract data.

2 Maryam Ghazi is a Director for FTI and has specialized in the analysis of the Settlement  
3 Agreement and assisted in the preparation of Thomas E. Lumsden's testimony in support of the  
4 Settlement Agreement.

5  
6 Margery Neis is a Utilities specialist in the BRS Practice who has coordinated the review  
7 and monitoring of all matters with the CPUC, the DWR power purchases and contract database  
8 and QF contracts.

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

12  
13 **B. Summary Of Exhibits Regarding Services Rendered By FTI.**

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

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

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

25 3. Exhibit 3 - Expense Summary and Expense Detail reports by individual and  
26 itemized total expenses for which reimbursement is sought. All expenses for which  
27 reimbursements are sought are disclosed in detail by individual. It should be noted that any  
28

1 airfare charges were incurred as a result of travel in coach class. FTI has not requested  
2 reimbursement for certain out-of-pocket expenses when it would not be possible to assemble the  
3 billing details for reimbursement under the Guidelines. These unbilled out-of-pocket expenses  
4 typically include telephone charges for calls placed in its offices, postage costs including Federal  
5 Express charges and copying and facsimile charges incurred at the Applicant's offices in  
6 connection with these cases. These unbilled out-of-pocket expenses are real costs that have been  
7 incurred by FTI and have benefited the Estate; and

8 4. Exhibit 4 – Summary of Meetings that more than two FTI professionals attended.  
9 The summary highlights the relative importance of each team member and the purpose of their  
10 involvement at the meetings.

11  
12 **NARRATIVE SUMMARY OF SERVICES PROVIDED BY FTI.**

13  
14 FTI has submitted detailed listings of time incurred by professional by task for the  
15 monthly Cover Sheet Applications to the Debtor, Committee, the United States Trustee and the  
16 Court for the period covered by this Seventh Interim Application. FTI has reclassified some of  
17 the detailed time into categories that more appropriately reflect the work performed.  
18 Reclassification was made to harmonize the categorization among professionals.

19  
20 **1. Asset Sales/Valuation Issues (Category 01).**

21 During the Seventh Application Period, FTI professionals spent a total of 14.2  
22 hours rendering services in this category, for which FTI seeks compensation of \$5,151. A  
23 summary of the FTI professionals who rendered services in this category and the corresponding  
24 amount of fees requested is included in Exhibit "2." The Billing Record for this category, which  
25 sets forth a detailed description of the services rendered are filed concurrently herewith.

26  
27 Services rendered by FTI professionals in this category included:  
28

- 1 a) FTI updated its valuation of PG&E as an integrated utility under the  
2 Settlement Agreement.
- 3 b) FTI prepared a valuation of the Debtor's regulatory assets as well as a  
4 liquidation analysis, both of which were used in the expert testimony of  
5 Thomas E. Lumsden.

6  
7 The purpose for the work performed was to enable the Committee to assess the  
8 solvency of the Debtor, to assess the ability of the Debtor's assets, at market value, to provide  
9 adequate coverage for the proposed debt to be issued and to assess the approximate value of the  
10 Debtor's equity under the proposed Settlement Agreement. In the process of developing the  
11 comparable company data, which is referenced in valuations, FTI has also utilized the  
12 information to assess the viability of the Debtors financial projections for plan purposes.

13 **2. Bankruptcy Reporting (Category 02).**

14  
15 During the Seventh Application Period, FTI professionals spent a total of 58.7  
16 hours rendering services in this category, for which FTI seeks compensation of \$25,079. A  
17 summary of the FTI professionals who rendered services in this category and the corresponding  
18 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
19 sets forth a detailed description of the services rendered is filed concurrently herewith.

20 Services rendered by FTI professionals in this category included:

- 21  
22 a) FTI reviewed and analyzed various motions and pleadings of the case, and  
23 provided comment to the committee on the financial impact of these items.

24 There have been innumerable motions filed in the case by the Debtor and other  
25 parties which required review and assessment by FTI to assist counsel to the Committee in  
26 determining the necessary response. These included motions on capital expenditures, asset sales,  
27 and claim settlements, Power Exchange, lease extensions, POR transition costs, procurement  
28

1 plans, as well as document discovery requests. In many cases, the time associated with those  
2 motions has been posted to a distinct task code, but in other more generic cases, the time has  
3 been posted to the Bankruptcy Reporting task.

4 **3. Cash Flow Analysis (Category 03).**

5  
6 During the Seventh Application Period, FTI professionals spent a total of 136.3  
7 hours rendering services in this category, for which FTI seeks compensation of \$55,029. A  
8 summary of the FTI professionals who rendered services in this category and the corresponding  
9 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
10 sets forth a detailed description of the services rendered, is filed concurrently herewith.

11 Services rendered by FTI professionals in this category included:

- 12 a) FTI updated its analysis of the Debtors' cash flow forecasts to develop an  
13 understanding of the Debtor's liquidity position and its ability to generate  
14 sufficient cash to fund the proposed Plans of Reorganization.  
15  
16 b) FTI analyzed the new capital expenditure budget and its impact on the  
17 debtors' cash flow projections.

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

24  
25 **4. Claims Analysis (Category 04).**

26 During the Seventh Application Period, FTI professionals spent a total of 156.7  
27 hours rendering services in this category, for which FTI seeks compensation of \$69,953. A  
28

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

4 Services rendered by FTI professionals in this category included:

- 5
- 6 a) FTI coordinated with the Debtor to summarize and reconcile those claims  
7 filed against the company to validate the value of potential allowed claims  
8 that the Estate is responsible for.
- 9 b) FTI reviewed and analyzed numerous claims stipulations.
- 10
- 11 c) FTI reviewed the data on application of any generator and pass through  
12 claims, and evaluated the FERC ordered refunds to reduce the allowed  
13 claims in the case.

14 This work product has involved the review of claims filed by creditors totaling in excess of \$44  
15 Billion; reconciling these amounts to those reported by the Debtor, and to information supplied  
16 by institutional creditors and in public filings; and evaluating those claims which are subject to  
17 estimation or adjustment through the ISO or PX, and those subject to CPUC review. Work in  
18 this area has resulted in validation on behalf of the Committee of a large segment of the claims in  
19 this case and evaluation of key claims including those for Financial Creditors, QF's, Sempra,  
20 ISO/Generators, cities, counties and other claimants where settlements have been proposed or  
21 discussed.

22

23 **5. CPUC Approval of Settlement Agreement (Category 05).**

24 During the Seventh Application period, FTI professionals spent a total of 118.3  
25 hours rendering services in this category, for which FTI seeks compensation of \$56,201. A  
26 summary of the FTI professionals who rendered services in this category and the corresponding  
27 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
28

sets forth a detailed description of the services rendered is filed concurrently herewith.

Services rendered by FTI professionals in this category included:

- a) FTI analyzed the Settlement Agreement and prepared a presentation for the OCC detailing the key terms and conditions of the Settlement Agreement.
- b) FTI worked with UBS in the preparation of models to calculate the financial metrics achieved thru the Settlement Agreement.
- c) FTI monitored the process for CPUC approval of the Settlement Agreement and analyzed testimony filed by interveners for the related CPUC hearings.

FTI's work was critical to the assessment of the reasonableness of the Settlement Agreement and in the determination of whether the Settlement Agreement is in the best interest of the OCC. FTI worked closely with the CPUC, its consultants and PG&E to articulate the benefits of the agreement to all involved parties and to determine the likely reception of the Settlement Agreement by the ratings agencies and Wall Street. FTI's findings were essential in obtaining OCC support of the Settlement Agreement and were relied on by the CPUC and PG&E to validate their independent review of the agreement.

#### 6. CPUC Review (Category 06).

During the Seventh Application period, FTI professionals spent a total of 76.3 hours rendering services in this category, for which FTI seeks compensation of \$30,187. 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:

- 1 a) FTI reviewed and monitored CPUC proceedings to determine the potential  
2 financial impact the proceedings could have on the Debtor.
- 3 b) FTI reviewed the Debtor's, SCE's, SDG&E's, DWR's and TURN's  
4 CPUC filings to determine the potential financial impact on the Debtor's  
5 estate.
- 6 c) FTI reviewed the TRA-TCBA and GMA account statements to determine  
7 correlation with power process.
- 8 d) FTI reviewed filings and proceedings related to the DWR refund  
9 proceedings and its potential impact on PG&E's forecasted cash balance.  
10  
11

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



1           **7. CPUC/OCC Plan of Reorganization (Category 7).**

2           During the Seventh Application period, FTI professionals spent a total of 121.5  
3 hours rendering services in this category, for which FTI seeks compensation of \$59,462. A  
4 summary of the FTI professionals who rendered services in this category and the corresponding  
5 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
6 sets forth a detailed description of the services rendered is filed concurrently herewith.

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

- 9           a)     FTI reviewed and analyzed the alternatives to the Joint Plan projections  
10                 and provided feedback to UBS and the CPUC on the reasonableness of the  
11                 Plan projections, including the proposed capital structure, capital  
12                 expenditures, and creditor recovery analysis.
- 13           b)     FTI analyzed the projected financial ratios from the Joint Plan and  
14                 derivations of that plan structure and compared S&P benchmark ratios for  
15                 utility investment grade companies.
- 16           c)     FTI analyzed the modified Joint Plan projections prepared by UBS and  
17                 provided advice and comments to UBS and the Committee on the  
18                 modified Joint Plan projections.  
19  
20

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

27           **8. Debtor Plan for Reorganization (Category 8)**  
28

1 During the Seventh Application Period, FTI professionals spent a total of 27.8  
2 hours rendering services in this category, for which FTI seeks compensation of \$13,961. A  
3 summary of the FTI professionals who rendered services in this category and the corresponding  
4 amount of fees requested is included in Exhibit "2". The Billing Report for this category, which  
5 sets forth a detailed description of the services rendered, is filed concurrently herewith.

6 Services rendered by FTI professionals in this category included:

- 7
- 8 a) FTI reviewed and analyzed various filings regarding the Debtor's POR to  
9 compare the Debtor's proposed POR to the forecasted financial models  
10 that support both the Joint plan and the Settlement Agreement.

11 The Committee has continued to monitor the Debtor's financial performance and  
12 changes to the Debtor's plan of reorganization. This effort has included a review of underlying  
13 detail of all plan assumptions and updates to current and projected financial performance.  
14

15 **9. DWR Contracts Analysis (Category 09).**

16 During the Seventh Application Period, FTI professionals spent a total of 41.8  
17 hours rendering services in this category, for which FTI seeks compensation of \$15,887. A  
18 summary of the FTI professionals who rendered services in this category and the corresponding  
19 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
20 sets forth a detailed description of the services rendered is filed concurrently herewith.  
21

22 Services rendered by FTI professionals in this category included:

- 23 a) FTI calculated the potential range of future payments that will be required  
24 to be remitted to the DWR by the Debtor to pay for its purchased power,  
25 administrative costs, and debt service requirements.  
26
- 27 b) FTI evaluated how the revised DWR revenue requirement would impact  
28 the projected financial statements of both Plans and the Settlement

Agreement.

- c) FTI reviewed updates to the DWR Revenue Requirement and the underlying Navigant model and settlements amending the underlying contracts.

Approximately 40% of the electricity that PG&E supplies to its customers has been provided by the DWR through spot and contract purchases under the program initiated by ABx1. FTI has monitored the power purchases supplied by DWR to PG&E, estimated the costs of that power, as well as future costs associated with contractual commitments and spot purchases to meet PG&E's net short position, and developed estimates of those future costs. This information has been compared with financial data supplied by consultants to the DWR and has also been shared with PG&E to assist in efforts to influence the structure of the allocation of those costs among the utilities in California. FTI continued its review of the contracts that have been completed by the DWR and updated our database model of those contracts for newly obtained contracts and renegotiated contracts to enable the Committee and PG&E to estimate the volume and cost of that power and its potential allocation to PG&E.

#### 10. Fee Application (Category 10).

During the Seventh Application Period, FTI professionals spent a total of 88.2 hours rendering services in this category, for which FTI seeks compensation of \$25,242. 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 are filed concurrently herewith.

Services rendered by FTI professionals in this category included:

- a) Time spent preparing FTI's Sixth Interim Fee Application and the monthly Cover Sheet Applications for Allowance and Payment of Interim Compensation and Reimbursement of Expenses in accordance with the

requirements established by the United States Bankruptcy Code, the Court and the U.S. Trustee. Time expended preparing this Seventh Interim Application will be reported in the next interim fee statement.

**11. FERC Review (Category 11).**

During the Seventh Application Period, FTI professionals spent a total of 23.1 hours rendering services in this category, for which FTI seeks compensation of \$9,330. 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 monitored FERC proceedings to determine the potential financial impact of regulatory proceedings on the Debtor's Estate, including possible changes in rates, generator refunds, settlement of the California PX/Generator claims, and progress on the Debtor's filings requesting FERC approval for various aspects of its Plan of Reorganization.
- b) FTI reported findings and analysis on FERC proceedings to the Committee.

This analysis and monitoring, in concert with regulatory counsel for the Committee, has been critical to assessment of potential refunds on claims that may be awarded to PG&E, potentially reducing the pre-petition obligations, and analyzing the potential claim PG&E will have from the settlement Generator claims against the now defunct California Power Exchange. We have also advised the Committee with respect to the impact of FERC market price caps and the impact of the retroactive application of those caps to the PX, ISO and DWR purchases as they may affect the Debtor.

1           **12. Financial Statement Modeling (Category 12).**

2           During the Seventh Application Period, FTI professionals spent a total of 72.2  
3 hours rendering services in this category, for which FTI seeks compensation of \$31,337. A  
4 summary of the FTI professionals who rendered services in this category and the corresponding  
5 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
6 sets forth a detailed description of the services rendered is filed concurrently herewith.

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

- 8
- 9           a)     FTI monitored and compared PG&E's actual financial results to those  
10                 forecasted in FTI's models and refined assumptions in future projection  
11                 periods to reflect current market conditions.
- 12
- 13           b)     FTI modeled expected "headroom" for 2003 to determine its impact on  
14                 cash flows and to assess the reasonableness of projected cash flows under  
15                 the Joint Plan and the Settlement Agreement.

16           FTI's financial modeling effort has enabled the Committee to assess the feasibility  
17 of the Debtor's POR, the CPUC/OCC's Joint POR and the Settlement Agreement. This model  
18 proved integral in calculating the cash flows of the alternative plans and assessing the feasibility  
19 of various capital structures. The joint CPUC/OCC plan before the court is supported by the  
20 financial projections generated from FTI's financial modeling efforts.

21

22           **13. Financial Statements (Category 13).**

23           During the Seventh Application Period, FTI professionals spent a total of 88.4  
24 hours rendering services in this category, for which FTI seeks compensation of \$38,212. A  
25 summary of the FTI professionals who rendered services in this category and the corresponding  
26 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
27 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.

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.

**14. General Committee Matters (Category 14).**

During the Seventh Application Period, FTI professionals spent a total of 93.6 hours rendering services in this category, for which FTI seeks compensation of \$50,658. 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 various issues, including general case administration, financial issues, regulatory issues, litigation issues, Plan

1 issues, Settlement Agreement issues and confirmation hearing matters.

2 b) FTI personnel prepared for and participated in various formal and informal  
3 conference calls between Committee members, Committee working group  
4 members, Committee advisors and PG&E regarding the financial impact  
5 of various motions brought by PG&E, the Debtor's and the CPUC/OCC's  
6 proposed plans of reorganization, confirmation hearings, and other issues  
7 surrounding the Debtor's estate.

8  
9 c) FTI prepared numerous presentations for distribution to the Committee  
10 regarding the financial impact of various matters affecting the Debtor's  
11 Estate, and addressed questions from individual creditors on aspects of the  
12 two Plans of Reorganization and the Settlement Agreement.

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

25  
26 **15. Legislative Review (Category 15).**

27 During the Seventh Application Period, FTI professionals spent a total of 44.1  
28

1 hours rendering services in this category, for which FTI seeks compensation of \$18,501. A  
2 summary of the FTI professionals who rendered services in this category and the corresponding  
3 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
4 sets forth a detailed description of the services rendered is filed concurrently herewith.

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

- 6  
7 a) FTI performed a general review and analysis of financial implications of  
8 potential and passed legislation affecting the Debtor's estate.

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

16  
17 **16. Mediation Support (Category 16).**

18 During the Seventh Application Period, FTI professionals spent a total of 116.6  
19 hours rendering services in this category, for which FTI seeks compensation of \$60,465. A  
20 summary of the FTI professionals who rendered services in this category and the corresponding  
21 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
22 sets forth a detailed description of the services rendered is filed concurrently herewith.

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

- 24  
25 a) FTI reviewed and analyzed various alternatives under consideration during  
26 the mediation process and analyzed financial forecasts and sensitivities of  
27 various financing structures under consideration.  
28



- 1           b)       FTI worked with UBS and the CPUC to prepare models to support the  
2                           alternatives under consideration in the mediation process.

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

7  
8       **17.     Professional Compensation Matters (Category 17).**

9           During the Seventh Application Period, FTI professionals spent a total of 2.8 hours  
10 rendering services in this category, for which FTI seeks compensation of \$1,375. A summary of  
11 the FTI professionals who rendered services in this category and the corresponding amount of  
12 fees requested is included in Exhibit "2." The Billing Report for this category, which sets forth a  
13 detailed description of the services rendered is filed concurrently herewith.

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

- 15  
16       a)       FTI reviewed and analyzed the Sixth Interim Fee Application of other  
17                           professionals.  
18  
19       b)       FTI attended fee application hearings for the Sixth Interim Fee  
20                           Application and reviewed UST objections to various professionals' fee  
21                           applications.

22       **18.     Settlement Agreement Testimony Preparation (Category 18)**

23  
24           During the Seventh Application Period, FTI professionals spent a total of 214.1  
25 hours rendering services in this category, for which FTI seeks compensation of \$102,070. A  
26 summary of the FTI professionals who rendered services in this category and the corresponding  
27 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
28 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 testimony for filing with the CPUC in support of the Settlement Agreement.
- b) FTI performed in-depth research to support its findings that the Settlement Agreement is in the best interest of the CPUC, PG&E, the OCC and ratepayers. In support of its findings, FTI performed the following analysis:
  - Comparisons of the projected financial results of PG&E under the Settlement Agreement terms to the financial results of a comparable peer group of utilities.
  - Comparison of the projected financial results of PG&E to PG&E's historical performance prior to the energy crisis.
  - Verify the accuracy of the "PG&E Bankruptcy Proposed Settlement Plan Data Sheet" such as (1) foregone dividends (2) value of the conservation easements or donations to public agencies of 140,000 acres of watershed lands, and (3) rate calculation and the impact of the Regulatory Asset.
  - Research the different definitions of Head Room per the Settlement Agreement as it compares to the traditional definition of Head Room.

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

#### **19. Settlement POR and Disclosure Statement (Category 19)**

During the Seventh Application Period, FTI professionals spent a total of 103.3

1 hours rendering services in this category, for which FTI seeks compensation of \$52,648. A  
2 summary of the FTI professionals who rendered services in this category and the corresponding  
3 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
4 sets forth a detailed description of the services rendered is filed concurrently herewith.

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

- 6
- 7 a) FTI reviewed and summarized key terms of the Settlement Agreement and  
8 tied these terms to numerous drafts of the Plan of Reorganization and  
9 Disclosure Statement to be filed with the court.

10 FTI spent considerable time reviewing and agreeing terms of the Settlement  
11 Agreement to drafts of the Disclosure Statements and Plan of Reorganization documents before  
12 they were filed with the court. FTI's thorough understanding of the financial terms of the  
13 Settlement Agreement enabled to insure the filed Disclosure Statement and POR documents  
14 accurately reflected the settlement terms agreed in mediation.

15

16 **20. Tax Review (Category 20)**

17 During the Seventh Application Period, FTI professionals spent a total of 7.2  
18 hours rendering services in this category, for which FTI seeks compensation of \$3,112. A  
19 summary of the FTI professionals who rendered services in this category and the corresponding  
20 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
21 sets forth a detailed description of the services rendered is filed concurrently herewith.

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

- 23
- 24 a) FTI reviewed and analyzed tax related matters between PG&E Corp and  
25 its subsidiaries.

26

27 FTI researched and summarized key tax issues of the Debtor's Plan of  
28 Reorganization, the Joint Plan of Reorganization and the Settlement Agreement for the

1 Committee and the tax impact of alternative plan proposals, highlighting the potential financial  
2 impact on the Debtor and any potential tax liabilities to the creditor. FTI also kept the  
3 Committee apprised of the status on IRS submissions and the implications of the CPUC's  
4 proposed tax sharing agreement.

5 **21. Travel Time (Category 21).**

6  
7 During the Seventh Application Period, FTI professionals spent a total of 5.1  
8 hours rendering services in this category, for which FTI seeks compensation of \$3,188. A  
9 summary of the FTI professionals who rendered services in this category and the corresponding  
10 amount of fees requested is included in Exhibit "2." The Billing Report for this category, which  
11 sets forth a detailed description of the services rendered is filed concurrently herewith.

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

- 13  
14 a) This category includes the time required for FTI professionals to travel to  
15 case related meetings after September 11, 2001.

16  
17  
18 **IV. SUMMARY OF ACTUAL AND NECESSARY EXPENSES INCURRED BY FTI**

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

- 26  
27 a) FTI does not charge its clients for photocopying done in-house; copying done by  
28 third-party services is charged at cost;

- 1 b) FTI charges its clients for document retrieval services, computer research and other  
2 specialized searches and services, such as messengers and library retrievals, at cost;
- 3 c) FTI charges its clients for mileage (\$0.36 per mile, if sought) and parking costs  
4 incurred by its professionals in connection with services rendered, at cost;
- 5
- 6 d) FTI charges its clients for transportation and travel-related costs including out-  
7 of-town meals, excluding lunches, incurred by its professionals when working  
8 on specific client matters, at cost; and
- 9 e) FTI normally charges its clients for the cost of overtime and weekend meals  
10 and transportation when pressing client matters require the professional to  
11 work past normal office hours; however, in accordance with the UST  
12 Guidelines and the Court Guidelines, no such charges are included in this  
13 Seventh Interim Application.
- 14

15 V.

16 **COMPENSATION REQUESTED AND RELEVANT LEGAL STANDARD**

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

25

26 The reasonableness of a professional's hourly rate is based on the cost for  
27 comparable services charged in the area, in non-bankruptcy matters. See In re Yermakov, 718  
28 F.2d at 1471. The reasonableness of the hours expended on a task is based on whether the

1 services provided were actual and necessary. See In re Nucorp Energy, Inc., 764 F.2d 655, 658  
2 (9<sup>th</sup> Cir. 1985).

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

## 10 VI.

### 11 CONCLUSION

12 For the reasons set forth above and pursuant to Bankruptcy Code sections 330 and  
13 331, Bankruptcy Rule 2016, the Court Guidelines, the UST Guidelines and the standards adopted  
14 by courts in awarding accountants' and financial advisors' fees and costs, FTI submits that the  
15 fees for services rendered and costs and expenses incurred on behalf of the Committee during the  
16 Seventh Application Period in the total amount of \$744,797 are reasonable and should be  
17 allowed on an interim basis and paid in full.

18  
19 As previously mentioned, FTI purchased all outstanding receivables of the BRS  
20 Practice, including receivables related to PwC's work as accountants and financial advisors to  
21 the Official Committee of Unsecured Creditors in the Pacific Gas and Electric bankruptcy case.  
22 No agreement or understanding of any kind or nature exists between FTI and any other person or  
23 entity for the sharing, division, or payment of any portion of the compensation awarded for our  
24 services rendered or expenses incurred in connection with the representation of the Committee in  
25 the bankruptcy case.

26 **WHEREFORE** FTI respectfully requests that this Court enter an order:

- 27  
28 1. Approving this Seventh Interim Application in its entirety;

1                   2.     Approving an interim award of compensation in the amount of \$727,043  
2     for professional services rendered and reimbursement of costs and expenses incurred in the  
3     amount of \$17,754, for a total amount of \$744,797.

4                   3.     Authorizing and directing PG&E to immediately pay to FTI the allowed  
5     amounts, less any such amounts already paid pursuant to the Order Establishing Interim Fee  
6     Application and Expense Reimbursement Procedure; and

7  
8                   4.     Granting such other and further relief as the Court deems just and proper.  
9

10     DATED: September 12, 2003

Respectfully submitted.

FTI CONSULTING INC

By: 

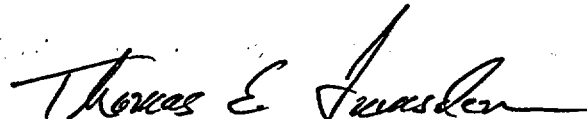
Thomas E. Lumsden

Accountants and Financial Advisors to Official Committee  
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 Seventh 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: 9-12-03

  
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 "Seventh Application of FTI Consulting Inc. For Allowance and Payment of Compensation And Reimbursement of Expenses (April 1, 2003 Through July 31, 2003)" (the "Seventh Interim Application"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Seventh Interim Application. This Seventh Interim Application covers the period from April 1, 2003 through and including July 31, 2003 (the "Seventh Application Period"). I have read the Seventh Interim 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 1, 2003 to July 31, 2003, 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 Seventh Interim Application, FTI seeks allowance of

1 compensation covering 1,610.3 hours of professional time devoted to advising the Committee in  
2 PG&E's bankruptcy case, resulting in the accumulation of \$727,043 in fees for professional  
3 services rendered and \$17,754 for expenses incurred, for a total amount of \$744,797.

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

10           7.     FTI has submitted monthly fee notices in accordance with the interim fee  
11 procedures that were established by the Court. FTI has received payments totaling \$426,428 in  
12 connection with the Monthly Cover Sheet Applications covering the period April 1, 2003 to June  
13 30, 2003, comprised of \$415,965 in fees and \$10,463 in expenses (\$202,023 in fees and \$7,312  
14 in expenses related to the July 31, 2003 Cover Sheet Application have not yet been paid  
15 amounting to a total of \$209,335.)

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

22           9.     I am one of the designated professionals responsible for overseeing the  
23 billing in this matter and for assuring compliance with the Guidelines of the Office of the United  
24 States Trustee for the Northern District of California relating to billing (the "Guidelines").  
25 Based upon my review of the Seventh Interim Application submitted by FTI for the Seventh  
26 Application Period, I believe that the Seventh Interim Application complies with the Court  
27 Guidelines and the UST Guidelines.  
28

1           10. Attached hereto as Exhibit "1" is a summary of the total hours expended,  
2 billing rate, and fees incurred by each FTI professional during the Seventh Application Period.

3           11. Attached hereto as Exhibit "2" and "Exhibit 2-1" is a summary of each  
4 category of services, setting forth the name of each professional who expended time in that  
5 category and the total hours and amount billed by each professional in that category during the  
6 Seventh Application Period.

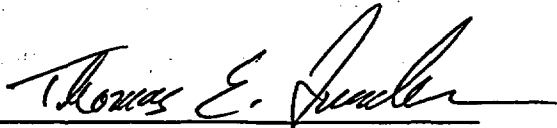
7  
8           12. Attached hereto as Exhibit "3" are Expense Summary and Expense Detail  
9 reports by individual and itemized total expenses for which reimbursement is sought.

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

13  
14           14. Attached hereto as Exhibit "5", is a copy of the Declaration of Clara Yang  
15 Strand, executed on, in support of the Seventh Interim Application of FTI Consulting.

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

18  
19           Executed this 12<sup>th</sup> day of September, 2003 at San Francisco, California.

20  
21           

22           Thomas E. Lumsden  
23  
24  
25  
26  
27  
28

1 Thomas E. Lumsden  
2 FTI Consulting Inc.  
3 353 Sacramento Street, 18<sup>th</sup> Floor  
4 San Francisco, CA 94111  
5 Telephone: (415) 283-4200  
6 Facsimile: (415) 283-4266

7  
8  
9  
10 Accountants and Financial Advisors for Official  
11 Committee of Unsecured Creditors  
12

**FILED**

SEP 12 2003

UNITED STATES BANKRUPTCY COURT  
SAN FRANCISCO, CA

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**UNITED STATES BANKRUPTCY COURT  
NORTHERN DISTRICT OF CALIFORNIA  
SAN FRANCISCO DIVISION**

In re

PACIFIC GAS AND ELECTRIC  
COMPANY, a California corporation,

Debtor.

Case No. SF 01-30923 DM

Chapter 11

**DECLARATION OF CLARA YANG  
STRAND; IN SUPPORT OF THE SEVENTH  
INTERIM APPLICATION OF FTI  
CONSULTING INC. FOR ALLOWANCE  
AND PAYMENT OF COMPENSATION  
AND REIMBURSEMENT OF EXPENSES  
(APRIL 1, 2003 THROUGH JULY 31, 2003)**

Hearing:

Date: November 13, 2003

Time: 1:30 PM

Place: 235 Pine Street, 22<sup>nd</sup> Floor  
San Francisco, CA

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## DECLARATION OF CLARA YANG STRAND

I, Clara Yang Strand, declare:

1. I am employed by Bank of America, N.A., one of the members of the Official Committee of Unsecured Creditors ("Committee") in the Pacific Gas and Electric Company ("PG&E") chapter 11 bankruptcy case. I am one of the Co-Chairs of the Committee. Except as otherwise stated, I have personal knowledge of the facts set forth below, and if called upon, I could and would testify competently with regard thereto. I make this declaration in support of the Seventh Interim Application of FTI Consulting Inc. ("FTI") for Allowance and Payment of Compensation and Reimbursement of Expenses (April 1, 2003 Through July 31, 2003) (the "Application").

2. I have reviewed the Application and FTI's invoices for April 1, 2003 through July 31, 2003.

3. I believe that the fees and costs requested by FTI for the April 1, 2003 through July 31, 2003 period are appropriate and reasonable. Based on my experience with FTI in this case, their work has been done in a professional and efficient manner and has added significant value to the estate for the benefit of creditors. FTI has worked effectively with the Debtor in the review and analysis of the Debtor's financial projections to support its Plan of Reorganization, including analysis of filed claims against the Debtor, with the CPUC in the development of an alternative plan structure, and with both parties in the development of a mutually agreeable Settlement Agreement. Accordingly, I believe that FTI's request for fees and reimbursement of expenses should be approved.

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

Executed this 11 day of September 2003 at Los Angeles, California.

  
Clara Yang Strand