

56-215/323

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

**PACIFIC GAS AND ELECTRIC
COMPANY, a California Corporation**
Debtor.
Federal I.D. No. 94-0742640

Chapter 11 Case

CASE NO. 01-30923-DM

**FIRST INTERIM APPLICATION OF ROTHSCHILD INC.
FOR COMPENSATION AND REIMBURSEMENT OF EXPENSES**

Name of Applicant: Rothschild Inc.

Authorized to Provide Professional Services to: Debtor and Debtor-In-Possession

Date of Retention: July 25, 2001

Period for which compensation and reimbursement are sought: July 25, 2001 through November 30, 2001

Amount of compensation sought as actual, reasonable, and necessary: \$1,296,666.67

Amount of expense reimbursement sought as actual, reasonable, and necessary: \$154,407.17

This is a: X interim final application

If this is not the first application filed, disclose the following for prior application:

<u>Date Filed</u>	<u>Period Covered</u>	<u>Requested Fees</u>	<u>Requested Expenses</u>	<u>Approved Fees</u>	<u>Approved Expenses</u>
NA	NA	\$	\$	\$	\$

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UNITED STATES BANKRUPTCY COURT
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PACIFIC GAS AND ELECTRIC
COMPANY, a California Corporation

Debtor.

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CASE NO. 01-30923- DM

**FIRST INTERIM APPLICATION OF ROTHSCHILD INC.
FOR COMPENSATION AND REIMBURSEMENT OF EXPENSES**

Rothschild Inc. ("Applicant"), financial advisor and investment banker to the debtor and debtor-in-possession ("Debtor") of Pacific Gas & Electric Company ("PG&E" or the "Company"), makes this first application for interim compensation and reimbursement of expenses, and in support thereof respectfully represents:

1. This application is made pursuant to sections 330 and 331 of title 11 of the United States Code (the "Bankruptcy Code"), Rule 2016 of the Federal Rules of Bankruptcy Procedure, the order of the United States Bankruptcy Court for the Northern District of California (the "Bankruptcy Court" or this "Court") dated August 21, 2001 approving the retention of Applicant as financial advisor and investment banker to the Debtor, nunc pro tunc, as of July 25, 2001 (the "August 21st Order"), a copy of which is attached hereto as Exhibit A, under the terms set forth in the application to the Court.

2. Applicant's retention agreement with the Debtor dated July 25, 2001, a copy of which is attached hereto as Exhibit A, among other things, provides for payment of a monthly cash advisory fee of \$350,000 for each of the first two months of the engagement, \$300,000 for

the third month, \$250,000 for the fourth month, and \$200,000 for each month thereafter as long as the engagement continues (the "Monthly Fee"), subject to a 10% withholding for the period April 6 through July 31, 2001 and a 15% withholding for periods thereafter, plus expenses. Applicant seeks approval of compensation for services rendered during the period July 25, 2001 through and including November 30, 2001 (the "Relevant Period").

3. Applicant seeks approval of compensation rendered during the Relevant Period in the amount of \$1,296,666.67, representing Applicant's monthly rate of \$350,000.00 for the period July 25, 2001 through September 23, 2001, \$300,000.00 for the period September 24, 2001 through October 23, 2001, \$250,000.00 for the period October 24, 2001 through November 23, 2001, and \$200,000.00 for the period November 24, 2001 through November 30, 2001 plus reimbursement of reasonable and necessary expenses in the amount of \$154,407.17¹ incurred by Applicant during the Relevant Period.

4. Pursuant to the August 21st Order, Applicant has already submitted a request to PG&E for the payment of \$1,106,118.28 for fees representing (i) 90% of Applicants monthly fees from July 25, 2001 through July 31, 2001 (\$79,032.26) and (ii) 85% of Applicant's monthly fees from August 1, 2001 through November 30, 2001 (\$1,217,634.41) and \$154,407.17 for all reasonable and necessary expenses incurred by Applicant during the Relevant Period. Pursuant to an order dated July 26, 2001 regarding procedures for interim compensation and reimbursement, fees (subject to a 10%/15% withholding) and expenses incurred in the Relevant Period are payable monthly. Amounts withheld are payable upon approval of the Relevant Period's interim fee application. To date PG&E has paid Applicant a total of \$1,069,903.67 for

¹ Applicant has included all actual and necessary disbursements processed by its accounting department for the Relevant Period. It is possible, however, that some disbursements for this Relevant Period will be processed in subsequent periods. Accordingly, Applicant reserves the right to seek reimbursement of additional expenses that may have been incurred during the Relevant Period, but which have not been accounted for in Applicant's billing system.

the Relevant Period, representing \$925,451.61 for monthly fees and \$144,452.06 for expenses. This application seeks interim (i) approval of all fees for services rendered and reimbursement of expenses incurred during the Relevant Period and (ii) payment of Applicant's monthly fees and expenses for the Relevant Period, currently unpaid or withheld by PG&E, in the amount of \$381,170.17.

5. Annexed hereto as Exhibits B and D are the invoices for the total compensation and expenses sought by Applicant for the Relevant Period, a breakdown of Applicant's expenses incurred during the Relevant Period and a detailed description of the activities and services performed by Applicant on behalf of the Debtor during the Relevant Period. The retention agreement between the Debtor and Applicant and the resumes of key professionals of Applicant providing services to the Debtor are attached as Exhibits A and C, respectively.

6. Given the size and complexity of these cases, the complicated corporate and financial structure of PG&E, the degree of activity during the Relevant Period and the high level of services rendered by Applicant to the Debtor, as more fully described below, Applicant submits that the compensation it seeks is fair and reasonable.

BACKGROUND

7. On April 6, 2001, PG&E filed a voluntary petition in the Court under chapter 11 of the Bankruptcy Code.

8. PG&E is a public utility engaged principally in the business of providing electricity and natural gas distribution and transmission services throughout Northern and Central California.

9. PG&E continues to operate its business and manage its properties, as debtor-in-possession, pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

10. On August 21, 2001, this Court entered an order, pursuant to section 1103(a) of title 11 of the United States Code, 11 U.S.C. §§101-1330 and Bankruptcy Rules 2014(a) and 5002, authorizing the employment and retention of Applicant as the investment banker for the Company as of July 25, 2001.

11. A disclosure statement and plan of reorganization were filed with this court on September 20, 2001 and, as amended, on December 19, 2001.

12. Applicant has been advised that, to date, PG&E has paid all quarterly fees to the United States Trustee.

13. After interviewing several investment banking firms, the Company elected to engage Applicant to advise PG&E in this Chapter 11 as of July 25, 2001. PG&E chose to retain Applicant due to Applicant's reputation as a leading investment banking firm and financial advisor in the restructuring and utility sectors and its substantial experience advising debtors, creditors' committees and other parties in interest in connection with all aspects of the financial restructuring and Chapter 11, including financial advice regarding mergers, acquisitions, divestitures, public and private financings and spin-offs and evaluation of assets and liabilities, formulation and negotiation of plans of reorganization and the restructuring of indebtedness.

14. By the August 21st Order, this Court approved the appointment of Applicant as financial advisor and investment banker to PG&E to provide assistance to the Company in evaluating the complex financial and economic issues raised by PG&E's reorganization case and to fulfill its statutory and fiduciary duties. Applicant was retained by the Company to:

(a) Provide financial advice and assistance to the Company in developing and seeking approval of a reorganization plan (as the same may be modified from time to time, a "Plan"), which may be a plan under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§101 et. seq.

(b) Evaluate the Company's debt capacity in light of its projected cash flows and assist in the determination of an appropriate capital structure for the Company;

(c) If requested by the Company, in connection therewith, provide financial advice and assistance to the Company in structuring any new securities to be issued under the Plan;

(d) Assist the Company and its other professionals in determining a range of values for the Company and any securities that the Company offers or proposes to offer in connection with the Plan or other transaction;

(e) If requested by the Company, assist the Company and/or participate in meetings and negotiations with entities or groups affected by the Plan, including, without limitation, the Company's Board of Directors, any current or prospective creditors of, holders of equity in, or claimants against the Company and/or their respective representatives in connection with the Plan or other transaction;

(f) If requested by the Company, participate in hearings before the Bankruptcy Court, the California Public Utilities Commission and legislative bodies with respect to the matters upon which Rothschild has provided advice, including, as relevant, coordinating, with the Company's counsel with respect to testimony in connection therewith; and,

(g) Render such other financial advisory and investment banking services as may be agreed upon by Rothschild and the Company in connection with the foregoing.

15. All services rendered by Applicant pursuant to the retention order during the Relevant Period were performed at the request or direction of the Company or legal professionals of Howard Rice Nemerovski Canady, Falk & Rabkin, Dewey Ballantine LLP or Weil Gotshal & Manges LLP.

SUMMARY OF SERVICES RENDERED

16. Applicant has provided a broad range of necessary financial advisory services.

Major areas of effort can be summarized into the following general categories:

17. Operational Due Diligence

- Reviewed the Debtor's financial projections and assumptions. Participated in meetings and calls with officers and employees of the Debtor to review current operating performance and potential revisions to long-term financial projections.
- Prepared and revised analyses of each business unit's long-term operating projections, including sensitivities to various assumptions.
- Reviewed and participated in discussions with the Debtor on resolution of various operational items, including energy procurement and pricing assumptions.

18. Financial Analysis

- Prepared and revised detailed operating models of the Debtor's business units to review the Debtor's long-term financial projections and perform sensitivities to plan assumptions, including pricing, cost structure and capital expenditures.
- Participated in numerous meetings and calls with officers and employees of the Debtor to review the business plan models.

- Reviewed the Debtor's cash flow projections. Participated in meetings and calls with officers and employees of the Debtor, as well as with its other advisors, to discuss monthly cash flow models and assumptions.
- Performed detailed valuation analyses of the Debtor's business units including discounted cash flow and comparable company analysis.
- Prepared analyses of comparable company historical performance and operating structure.

19. Creditor Committee Meetings

- Prepared and reviewed analyses and presentations to the Official Committee of Unsecured Creditors, including reports on creditor recoveries and the status of the Plan of Reorganization.
- Participated in a call (October 4) and meetings (August 9, September 5, November 14) with the full Official Committee of Unsecured Creditors and numerous calls and meetings (July 26, August 2) exclusively with the steering committee and its advisors to discuss the status and terms of the Plan of Reorganization.
- Participated in worksessions with the Committee's advisors and the Debtor regarding resolution of outstanding Plan of Reorganization issues, including Plan consideration, comparison to the SoCal Edison transaction and timeline.
- Participated in numerous meetings and calls with officers of the Debtor, as well as its other advisors, to prepare for meetings with creditor groups to present the Plan of Reorganization and address questions regarding consideration, timing and the SoCal Edison transaction.
- Prepared for and participated in meetings with various creditor and investor groups to present the Plan of Reorganization and respond to questions.

- Held numerous calls with individual creditors regarding questions on the Plan of Reorganization and creditor treatment.

20. Plan of Reorganization Analysis

- Assisted the Debtor in developing the Plan of Reorganization, particularly with regard to structuring creditor consideration and resolution of Plan issues.
- Reviewed and performed analyses of various plan of reorganization alternatives. Developed a comparison of plan alternative risks. Researched and prepared analyses of various creditor treatment alternatives, including review of comparable bankruptcy cases.
- Assisted the Debtor in identifying key constituents and developing strategies for discussions with those groups.
- Participated in numerous meetings and calls with officers and employees of the Debtor and its other advisors to address and resolve various Plan components, including creditor classification, creditor treatment and consideration, debt capacity, reorganized debt instruments/capital structure, regulatory/jurisdictional issues, corporate structure, tax implications and potential asset sales. Prepared presentations for meetings.
- Reviewed and participated in numerous meetings and calls with the Debtor and its other advisors with regard to resolution of energy sale/procurement issues at the distribution and generation businesses, including analyses of various options.
- Prepared models, detailed analyses and sensitivities of creditor recovery under the Plan, particularly with regard to Plan capital structure and percentage distribution of cash and notes via maximization of refinancing through debt capacity and tax constraints.

- Participated in discussions with various individual creditors and creditor groups regarding questions and issues with the Plan of Reorganization, particularly creditor consideration. Prepared analyses of consideration alternatives and reviewed financial impact with officers of the Debtor.
- Prepared analyses on the calculation of pre- and post-petition interest, including review of debt claims and precedent case treatment. Prepared sensitivities to changes in assumptions. Participated in numerous worksessions with employees of the Debtor to review interest rate treatment and credit agreements.
- Participated in discussions with officers of the Debtor and its other advisors and prepared financial analyses of alternatives for resolution of the QF creditor claims.
- Prepared for and participated in rating agency meetings with S&P and Moody's to review credit ratings of the reorganized operations.

21. Plan of Reorganization Negotiations

- Participated in Plan negotiation meetings with members of the Official Committee of Unsecured Creditors and its advisors.
- Held numerous meetings and calls with the Official Committee of Unsecured Creditors and the Ad Hoc creditor group and their advisors regarding Plan components and creditor consideration, including cash versus notes, post-petition interest rates, structure of new securities, timing of Plan process and timing of creditor payments.
- Participated in drafting and negotiating the Plan of Reorganization Support Agreement with the Official Committee of Unsecured Creditors, including preparation of exhibits.

- Participated in numerous discussions with various individual creditors and creditor groups regarding questions and issues with the Plan of Reorganization, particularly creditor consideration. Prepared analyses of consideration alternatives and reviewed financial impact with officers of the Debtor.
- Participated in meetings and discussions with officers and employees of the Debtor to review the status of discussions with and requests from creditor groups (including QFs, PC bonds, LC banks, Floating Rate Notes, Commercial Paper, Generator Claims and other unsecured creditors). Prepared summary analyses of status of creditor issues and possible resolutions. Prepared outlines and discussion materials for potential meetings with creditor groups.

22. Disclosure Statement/Plan of Reorganization Preparation

- Review of and comments to draft disclosure statement and plan documents, initial and amended.
- Participated in meetings and calls with the Debtor and its other advisors regarding revisions to and finalization of Plan documents.
- Participated in meetings and worksessions to coordinate and resolve issues regarding regulatory filings and financing process.
- Participated in meetings and worksessions to prepare SEC regulatory filing documents. Reviewed and provided comments on draft filing documents. Prepared valuation analyses and exhibits for inclusion in the SEC filing.

APPLICANT'S ENTITLEMENT TO THE REQUESTED COMPENSATION

23. Applicant respectfully submits that the compensation requested for the Relevant Period for services rendered by Applicant to the Company is fully justified and reasonable based on the following: (a) the degree of activity during the Relevant Period and the high level of services rendered by Applicant to the Company, (b) the complexity of the issues presented, (c) the skill necessary to perform the investment banking services properly, (d) the preclusion of other employment, (e) customary fees charged in non-bankruptcy situations for similar services rendered, (f) time constraints required by the exigencies of the case and (g) the experience, reputation and ability of the professionals rendering services.

24. Applicant respectfully submits that the services it has rendered to the Company have been necessary and in the best interest of PG&E and the estate and have furthered the goals of all parties in interest.

25. The amount of fees and expenses sought in this application and Applicant's billing processes are consistent with market practices for investment banking firms both in and out of a bankruptcy context. Applicant does not bill its clients based on the number of hours expended by its professionals. It bills clients on a retainer basis (generally monthly or quarterly), plus a transaction fee, based upon successful completion of a transaction. Accordingly, Applicant does not have hourly rates for its professionals and Applicant's professionals generally do not maintain time records for the work performed for its clients. Applicant's policy, for all engagements in or out of bankruptcy, is to dedicate the appropriate number of professionals to the assignment to complete the work as efficiently as possible. Applicant has, however, maintained a summary of services performed by Applicant on behalf of the Debtor during the Relevant Period. These records, attached as Exhibit D, describe the services rendered for this period. Applicant incurred

reasonable and necessary out-of-pocket expenses aggregating \$154,407.17 during the Relevant Period. Details of the expenses incurred during the Relevant Period are also provided in Exhibit B. Applicant submits that all such expenses were necessarily incurred, are reasonable in amount and represent only the actual costs incurred.

26. The services summarized by this application and rendered by Applicant to the Company during the Relevant Period were substantial, highly professional and instrumental to PG&E's reorganization. They were reasonable and necessary to the Company's performance of its duties and should be approved by the Court.

PERSONNEL WHO RENDERED SERVICES

27. Applicant's team has been directed by senior level professionals with extensive experience in the areas of investment banking, bankruptcy services and the utility industry. The investment banking services set forth above were performed by members of Applicant's restructuring group and utility group. The restructuring group's services were performed primarily by David L. Resnick, Managing Director, Stephen S. Ledoux, Managing Director, William R. Shaw, Vice President, Jason R. Capone, Associate, and other professionals and paraprofessionals, as needed. Applicant's general staffing policy is to assign senior bankers and experienced junior bankers to each restructuring assignment. The senior bankers, David L. Resnick and Stephen S. Ledoux, have overall responsibility for the case. They are primarily responsible for developing strategy with respect to the case, directing negotiations, interfacing with the other senior professionals involved with the case and testifying, when necessary, in Bankruptcy Court. In addition, the senior bankers and experienced junior banker, in this case William R. Shaw, is responsible for day-to-day coordination of the case and the review of all financial analyses. The junior banker, in this case, Jason R. Capone, performs extensive financial

analyses and assists in the day-to-day coordination of the case. The utility group's services were performed primarily by Matthew L.C. Savage, Managing Director, Robert Mudge, Director, John Chang, Vice President, William Cannon, Vice President, Alice Ku, Analyst, and other professionals and paraprofessionals, as needed.

28. The senior bankers, the experienced junior bankers and the junior bankers coordinate their actions so as to not duplicate efforts. Given that the senior bankers and the experienced junior bankers have different roles in the case but have overlapping responsibilities, there are frequent times where it is appropriate for two or more bankers to be present at a meeting.

SUMMARY OF EXPENSES INCURRED SINCE THE COMMENCEMENT OF THE CASE

29. Applicant incurred reasonable and necessary out-of-pocket expenses aggregating \$154,407.17 during the Relevant Period. Details of the expenses incurred during the Relevant Period are also provided in Exhibit B. Applicant submits that all such expenses were necessarily incurred, are reasonable in amount and represent only the actual costs incurred.

30. Applicant's charges for expenses to the Company are determined in the same manner as for clients in non-bankruptcy matters and are consistent with Guidelines for Compensation and Expense Reimbursement of Professionals and Trustees of the United States Bankruptcy Court, Northern District of California. Out-of-pocket expenses incurred by Applicant are charged to a client if the expenses are incurred for the client or are otherwise necessary in connection with services rendered for such particular client. Applicant does not factor general overhead expenses into disbursements charged to clients in connection with Chapter 11 cases. Applicant has followed its general internal policies with respect to out-of-pocket expenses billed to PG&E as set forth below, with any exceptions fully explained.

(a) Applicant bills breakfast or dinner meals to a client if the employee is traveling on client matters at cost. Meal expenses incurred during meetings which employees and other meeting participants are required to attend are billed at cost.

(b) Messengers and couriers are used by Applicant to deliver hard copy documents relating to a client matter which require receipt on an expedited basis; otherwise, Applicant uses the regular postal system. Any charges for either messengers or couriers are billed to a client at cost.

(c) All airfare charges billed to a client in a Chapter 11 case are based on coach fare rates.

(d) Applicant charges for transportation to and from airports and while traveling on client matters at cost.

(e) The research/database category consists of the cost of using databases (e.g., Disclosure, Securities Data Corporation, Dow Jones, Lexis-Nexis, etc.) to which Applicant subscribes to search for and obtain information used in Applicant's financial analyses. Applicant pays the vendor's standard rate for such database services. In certain instances, Applicant has determined that paying a flat annual or monthly fee for such services is less costly than contracting for such services on a per use basis. Such annual or monthly services are allocated to clients based on such clients' use of each service. The research category also consists of charges from outside services which supply, for a fee, financial documents from regulatory agencies which can not be obtained from databases subscribed to by Applicant.

(f) Applicant bills photocopying charges at the rate of \$.10 per page for black and white copies and \$1.00 per page for color copies.

(g) Telephone expenses are charged based on Applicant's actual cost of telephone charges with respect to client matters. Cellular phone charges are based on vendor's actual invoices.

(h) Conference calls arranged through a third party vendor are charged a \$0.75 per minute usage charge based on the vendor's charges for such services.

30. In the course of rendering services to PG&E as its financial advisor during the Relevant Period, Applicant incurred and paid certain expenses as outlined in Exhibit B. Applicant submits that all such expenses were necessarily incurred, are reasonable in amount and represent only the actual costs incurred by Applicant.

CONCLUSION

31. Applicant submits that the services summarized by this application and rendered by Applicant to the Company during the Relevant Period were substantial, highly professional and instrumental to PG&E's performance in the case.

32. As noted above, in accordance with the provisions of the August 21st Order and Applicant's retention agreement, Applicant seeks:

a) Interim approval of compensation for services rendered in the amount of \$1,296,666.67 in fees, representing Applicant's monthly rate of \$350,000 for the period July 25, 2001 through September 23, 2001, \$300,000 for the period September 24, 2001 through October 23, 2001, \$250,000 for the period October 24, 2001 through November 23, 2001, and \$200,000 for the period November 24, 2001 through November 30, 2001;

b) Interim approval of reimbursement of reasonable and necessary expenses in the amount of \$154,407.17 incurred and paid by Applicant during the Relevant Period; and

c) Payment by PG&E of the portions of Applicant's monthly fees and expenses that currently remain unpaid or withheld by PG&E, in the amount of \$381,170.17.

Applicant submits, for the reasons set forth above, that such compensation and reimbursement of expenses is necessary, fair and reasonable.

33. Applicant hereby certifies that all services for which compensation is sought were performed for and on behalf of the Company and not on behalf of any individual creditor or party in interest. Applicant has not entered into any agreement, express or implied, with any party in interest for the purpose of fixing or sharing fees or other compensation to be paid for professional services rendered in these cases.

* * *

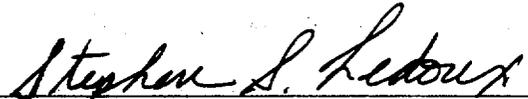
WHEREFORE, Applicant respectfully requests that this Court enter an order (a) granting an interim allowance of compensation for the period beginning July 25, 2001 through and including November 30, 2001 in the amount of \$1,296,666.67 for services rendered by Applicant as financial advisor and investment banker to PG&E, and reimbursement of expenses incurred and recorded by Applicant during the Relevant Period in the amount of \$154,407.17, (b) directing payment to Applicant of such amounts representing the portion of Applicant's compensation and expenses unpaid or withheld by PG&E, specifically the payment of \$381,170.17 and (c) granting such other and further relief as this court deems just and proper.

Dated: New York, New York
January 10, 2002

ROTHSCHILD INC.

By: Stephen S. Ledoux
STEPHEN S. LEDOUX, Managing Director

3. I have reviewed the foregoing Application and the facts set forth therein are true and correct to the best of my knowledge, information and belief. Moreover, I have reviewed the United States Trustee Guidelines For Reviewing Applications For Compensation And Reimbursement Of Expenses Filed Under 11 U.S.C. Section 330 (the "Guidelines") and the Application substantially complies with these Guidelines.


STEPHEN S. LEDOUX, Managing Director

SWORN AND SUBSCRIBED before me this 10th day of January 2002


Notary Public
My Commission Expires:

DONNA GRASSO SHANDLEY
Notary Public, State Of New York
No.01GR058322
Qualified in Westchester County
Commission Expires May 7, 20 03

FILED

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**U.S. BANKRUPTCY COURT
NORTHERN DIST. OF CA.
SAN FRANCISCO, CA.**

1 JAMES L. LOPES (No. 63678)
 2 JANET A. NEXON (No. 104747)
 3 GARY M. KAPLAN (No. 155530)
 4 HOWARD, RICE, NEMEROVSKI, CANADY,
 FALK & RABKIN
 5 A Professional Corporation
 Three Embarcadero Center, 7th Floor
 6 San Francisco, California 94111-4065
 Telephone: 415/434-1600
 Facsimile: 415/217-5910

7 Attorneys for Debtor and Debtor in Possession
 8 PACIFIC GAS AND ELECTRIC COMPANY

9 UNITED STATES BANKRUPTCY COURT
 10 NORTHERN DISTRICT OF CALIFORNIA
 11 SAN FRANCISCO DIVISION

12
 13 In re
 14 PACIFIC GAS AND ELECTRIC
 COMPANY, a California corporation,
 15 Debtor.
 16 Federal I.D. No. 94-0742640
 17

Case No. 01-30923 DM
 Chapter 11
 [No Hearing Requested]

HOWARD
 RICE
 NEMEROVSKI
 CANADY
 FALK
 & RABKIN
 A Professional Corporation

18
 19 ORDER ON DEBTOR'S APPLICATION FOR AN ORDER
 20 AUTHORIZING THE RETENTION AND EMPLOYMENT OF
ROTHSCHILD INC. AS FINANCIAL ADVISOR AND INVESTMENT BANKER

21
 22 The Court having reviewed the Debtor's Application for an Order Authorizing
 23 the Retention and Employment of Rothschild Inc. ("Rothschild") as Financial Advisor and
 24 Investment Banker (the "Application") filed herein by Pacific Gas and Electric Company,
 25 the debtor and debtor in possession ("Applicant" or the "Debtor") in the above-captioned
 26 case, and the Declaration of David L. Resnick in support of the Application (the
 27 "Declaration"), the Court having found that the Application and Declaration comply with
 28 Sections 327(a) and 329(a) of the Bankruptcy Code and Bankruptcy Rules 2014(a) and

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5002(a), and the Court being satisfied that Rothschild represents no interest adverse to the Debtor's estate with respect to the matters upon which it is to be engaged, that Rothschild is a "disinterested person" as that term is defined under Sections 104(14) and 1107(b) of the Bankruptcy Code, and that the employment of Rothschild is necessary and would be in the best interests of the Debtor, its creditors and the Debtor's estate; and due and adequate notice of the Application having been given under the circumstances; and it appearing that this proceeding is a core proceeding pursuant to 28 U.S.C. § 157(b); and good and sufficient cause appearing therefor,

IT IS HEREBY ORDERED that the Application is granted; and it is further **ORDERED** that Applicant is authorized to employ and retain Rothschild as Financial Advisor and Investment Banker, on the terms and conditions set forth in the Application, effective as of July 25, 2001.

Dated: August 21, 2001

DENNIS MONTALI

UNITED STATES BANKRUPTCY JUDGE

APPROVED:
OFFICE OF THE UNITED STATES TRUSTEE

By: Stephen L. Johnson 8/13/01
STEPHEN L. JOHNSON

HOWARD
RICE
NEUBROVSKI
CANNADY
BALK
#BAEON
A Registered Clerk



ROTHSCHILD INC.

July 25, 2001

Mr. Kent M. Harvey
Senior Vice President, Chief Financial Officer and
Treasurer
Pacific Gas and Electric Company
77 Beale Street
San Francisco, CA 94105

Dear Mr. Harvey:

This letter confirms our understanding that Rothschild Inc. ("Rothschild") has been engaged by Pacific Gas and Electric Company (the "Company") as financial advisor and investment banker to assist the Company in its analysis and consideration of a Restructuring (as defined below). For purposes of this agreement the term "Restructuring" shall mean substantial consummation of any of (i) a Plan (as defined below) or (ii) a sale of all or substantially all of the Company's assets pursuant to section 363 of the Bankruptcy Code (as defined below) in the presently pending chapter 11 cases of the Company and its affiliates in the Bankruptcy Court for the Northern District of California (the "Bankruptcy Court"). References herein to the "Company" include direct and indirect subsidiaries of the Company and any entity that the Company or any of its subsidiaries may form or invest in to pursue any of the matters contemplated hereby. If appropriate in connection with performing its services for the Company hereunder, Rothschild may utilize the services of one or more of its affiliates, in which case references herein to Rothschild shall as applicable be deemed to include such affiliates.

1. Rothschild, in its capacity as financial advisor to the Company, will perform the following financial advisory services:
 - (A) Rothschild will meet with the Company's management and familiarize itself to the extent it deems necessary, appropriate and feasible with the business, operations, properties, financial condition and prospects of the Company; and
 - (B) Rothschild will:
 - i. provide financial advice and assistance to the Company in developing and seeking approval of a reorganization plan (as the same may be modified from time to time, a "Plan"), which may be a plan under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§101 *et. seq.* (the "Bankruptcy Code");
 - ii. evaluate the Company's debt capacity in light of its projected cash flows and assist in the determination of an appropriate capital structure for the Company;
 - iii. if requested by the Company, in connection therewith, provide financial advice and assistance to the Company in structuring any new securities to be issued under the Plan;

- iv. assist the Company and its other professionals in determining a range of values for the Company and any securities that the Company offers or proposes to offer in connection with the Plan or other transaction;
- v. if requested by the Company, assist the Company and/or participate in meetings and negotiations with entities or groups affected by the Plan, including, without limitation, the Company's Board of Directors, any current or prospective creditors of, holders of equity in, or claimants against the Company and/or their respective representatives in connection with the Plan or other transaction;
- vi. if requested by the Company, participate in hearings before the Bankruptcy Court, the California Public Utilities Commission and legislative bodies with respect to the matters upon which Rothschild has provided advice, including, as relevant, coordinating, with the Company's counsel with respect to testimony in connection therewith; and,
- vii. render such other financial advisory and investment banking services as may be agreed upon by Rothschild and the Company in connection with the foregoing.

In rendering its services to the Company hereunder, Rothschild is not assuming any responsibility for the Company's underlying business decision to pursue any business strategy or to effect any transaction.

The Company shall make available to Rothschild all information concerning the business, assets, operations, financial condition and prospects of the Company that Rothschild reasonably requests in connection with the services to be performed for the Company hereunder, and shall provide Rothschild with reasonable access to the Company's officers, directors, employees, independent accountants and other advisors and agents as Rothschild shall deem appropriate. The Company represents that all information furnished by it or on its behalf to Rothschild will be accurate and complete in all material respects. Except as contemplated by the terms hereof or as required by applicable law, Rothschild shall keep confidential all non-public information and shall not disclose such information without the Company's prior approval to any third party, other than in confidence to the Company and its advisors and to such of Rothschild's directors, officers, employees, counsel and advisors (whom Rothschild shall instruct to maintain the confidentiality of such information in accordance with this Agreement) as Rothschild determines to have a need to know in order to render services hereunder.

In order to coordinate effectively the Company's and Rothschild's activities to effect a transaction, the Company will use commercially reasonable efforts to promptly inform Rothschild of any discussions, negotiations or inquiries regarding a possible transaction (including any such discussions, negotiations or inquiries that have occurred in the six month period prior to the date of this agreement).

2. Rothschild's compensation for services under this engagement will be as follows:

- (A) A cash fee shall be earned monthly in the amount of (i) \$350,000 for each of the first two months of the engagement, (ii) \$300,000 for the third month, (iii) \$250,000 for the fourth month, and (iv) \$200,000 for each month thereafter so long as the engagement continues. The initial payment

and each subsequent payment shall be paid by the Company in accordance with orders of the Bankruptcy Court governing payment of professionals.

- (B) A transaction fee of \$20 million in cash payable upon the Restructuring. The transaction fees described herein shall be payable on the closing date of the Restructuring, and in no event shall Rothschild be entitled to more than one transaction fee hereunder.
- (C) To the extent the Company requests Rothschild to perform additional services not contemplated by this Agreement, such additional fees as shall be mutually agreed upon by Rothschild and the Company, in writing, in advance.

Notwithstanding any other provision herein, the parties acknowledge and agree that the payment of the fees and expense reimbursements contemplated under this Agreement are subject to the applicable provisions of the Bankruptcy Code (including, without limitation, the provisions of Sections 327 and 330 thereof), the Bankruptcy Rules (including, without limitation, the provisions of Rule 2016 thereof), the local rules of the Bankruptcy Court and any applicable orders of the Bankruptcy Court. The Company and Rothschild acknowledge and agree that (i) the hours worked, (ii) the results achieved and (iii) the ultimate benefit to the Company of the work performed, in each case, in connection with the engagement, may be variable, and that the Company and Rothschild have taken such factors into account in setting the fees hereunder.

3. In addition to any fees payable by the Company to Rothschild hereunder, the Company shall, whether or not any transaction shall be proposed or consummated, reimburse Rothschild on a monthly basis for its travel and other reasonable out-of-pocket expenses (including all fees, disbursements and other charges of counsel to be retained by Rothschild, and of other consultants and advisors retained by Rothschild, in each case with the Company's consent and with the approval of the Bankruptcy Court), incurred in connection with, or arising out of Rothschild's activities under, or contemplated by, this engagement. The Company shall also reimburse Rothschild, at such times as Rothschild shall request, for any sales, use or similar taxes (including additions to such taxes, if any) arising in connection with any matter referred to in, or contemplated by, this engagement. Such reimbursements shall be made promptly upon submission by Rothschild of statements therefor.
4. The Company recognizes and confirms that, in advising the Company and in completing its engagement hereunder, Rothschild will be using and relying on publicly available information and on data, material, and other information furnished to Rothschild by the Company and other parties. It is understood that in performing under this engagement Rothschild may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.
5. The Company shall use commercially reasonable efforts to promptly apply to the Bankruptcy Court for the approval pursuant to section 327 of the Code of this agreement and Rothschild's retention by the Company under the terms of this agreement. The Company shall supply Rothschild with a draft of such application and any proposed order authorizing Rothschild's retention that is proposed to be submitted to the Bankruptcy Court sufficiently in advance of the filing of such application or the submission of such order as the case may be, to enable Rothschild and its counsel to review and comment thereon. Rothschild shall have no obligation to provide, and Company shall have no obligation to pay for, any services under this agreement unless Rothschild's retention under the terms of this agreement is approved by a final order of the Bankruptcy Court no longer subject to appeal, rehearing, reconsideration or petition for certiorari, and/or which is acceptable to Rothschild, in all respects. Rothschild acknowledges that in the event that the Bankruptcy Court approves its retention by the

Company, Rothschild's fees and expenses shall be subject to the jurisdiction and approval of the Bankruptcy Court and any applicable fee and expense guideline orders.

The Company agrees that Rothschild's compensation as set forth herein and payments made pursuant to reimbursement of out-of-pocket expenses as described in Section 3 shall be entitled to priority as expenses of administration under Sections 503(b)(1)(A) and 507(a)(1) of the Bankruptcy Code and shall be entitled to the benefits, to the extent they exist, of any "carve-outs" for professional fees and expenses in effect in the Company's chapter 11 case pursuant to one or more financing orders entered by the Bankruptcy Court.

6. This agreement and Rothschild's engagement hereunder may be terminated by either the Company or Rothschild at any time upon thirty (30) days prior written notice thereof to the other party; provided, however, that (i) termination of Rothschild's engagement hereunder shall not affect the Company's continuing obligations and agreements under paragraphs 4 and 7 hereof, (ii) notwithstanding any such termination, Rothschild shall be entitled to the full monthly retainer fees theretofore paid or then due and payable to it as specified in subparagraph 2(A) hereof, and to the full transaction fees agreed upon or provided for in subparagraph 2(B) hereof in the event that at any time within the 24 full months of such termination, a Restructuring is confirmed or approved (provided, that such confirmed or approved Restructuring is subsequently consummated), and (iii) termination of Rothschild's engagement hereunder shall not affect the Company's obligation to reimburse the expenses accruing prior to such termination to the extent provided for herein.
7. Rothschild has been retained under this agreement as an independent contractor with no fiduciary or agency relationship to the Company or to any other party. The advice (written or oral) rendered by Rothschild pursuant to this agreement is intended solely for the benefit and use of senior management and the Board of Directors of the Company in considering the matters to which this agreement relates, and the Company agrees that such advice may not be relied upon by any other person, used for any other purpose of reproduced, disseminated, quoted or referred to at any time, in any manner or for any purpose, nor shall any public references to Rothschild be made by the Company without the prior written consent of Rothschild.
8. Rothschild was selected for this engagement by the Company in part in reliance upon the expertise of David L. Resnick (the "Key Professional"). Rothschild agrees not to remove the Key Professional from performing work under this agreement without first obtaining the written consent of the Company. In the event that the Key Professional ceases for any reason to be responsible for and materially participating in the services described herein without the Company's prior written consent, the Company shall have the right to terminate this agreement under paragraph 6 hereunder and shall not be liable to Rothschild for the transaction fee contemplated by subparagraph 2(B) hereof; provided, however, that if the Company terminates this agreement pursuant to this paragraph 8 (i) due to the death or disability of the Key Professional at any time after three (3) months from the date hereof or (ii) for any other reason at any time after six (6) months from the date hereof, and a Restructuring is confirmed or approved within 24 months of the effective date of any such termination (provided, that such confirmed or approved Restructuring is subsequently consummated), then the Company shall pay Rothschild a pro rata portion of the transaction fee contemplated by paragraph 2(B) hereof based upon (x) the number of days of Rothschild's engagement hereunder over (y) the number of days commencing on the date hereof and ending on the date such Restructuring is confirmed or approved.
9. The Company agrees that Rothschild shall have the right to place advertisements in financial and other newspapers and journals at its own expense describing its services to the Company hereunder, provided

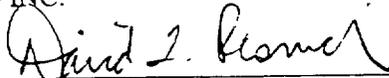
that Rothschild will submit a copy of any such advertisement to the Company for its prior written approval.

10. This agreement has been negotiated, executed and delivered at and shall be deemed to have been made in New York, New York. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to such state's principles of conflicts of laws. Regardless of any present or future domicile or principal place of business of the parties hereto, each such party hereby irrevocably consents and agrees that any and all claims or disputes between the parties hereto pertaining to this Agreement or to any matter arising out of or related to this Agreement shall be brought in any of (a) the Bankruptcy Court or any court having appellate jurisdiction over the Bankruptcy Court or (b) any state or Federal Court of competent jurisdiction in any of (i) the State of New York or (ii) the State of California. By execution and delivery of this agreement, each party submits and consents in advance to such jurisdiction in any action or suit commenced in any such court. Each party hereto hereby waives any objection which it may have based on lack of personal jurisdiction, improper venue or forum non conveniens and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. The Company consents to the service of process in accordance with New York law, and agrees that the Company's Chief Financial Officer shall be authorized to accept service on its behalf. Each of the parties hereto hereby knowingly, voluntarily and irrevocably waives any right it may have to a trial by jury in respect of any claim upon, arising out of or in connection with this Agreement or any Transaction or other transaction. Each of the parties hereto hereby certifies that no representative or agent of any other party hereto has represented expressly or otherwise that such party would not seek to enforce the provisions of this waiver. Each of the parties hereto hereby acknowledges that it has been induced to enter into this Agreement by and in reliance upon, among other things, the provisions of this paragraph.
11. This agreement may be executed in counterparts, each of which together shall be considered a single document. This agreement shall be binding upon Rothschild and the Company and their respective successors and assigns. This agreement is not intended to confer any rights upon any shareholder, creditor, owner, partner of the Company, or any other person not a party hereto.
12. Each party hereto represents and warrants that it has all requisite power and authority to enter into this Agreement and the transactions contemplated hereunder. Each party hereto further represents that this Agreement has been duly and validly authorized by all necessary corporate action and has been duly executed and delivered by each of the parties hereto and constitutes the legal, valid and binding agreement thereof, enforceable in accordance with its terms.

We are pleased to accept this engagement and look forward to working with the Company. Please confirm that the foregoing is in accordance with your understanding by signing and returning to us the enclosed duplicate of this letter, which shall thereupon constitute a binding agreement between the Company and Rothschild.

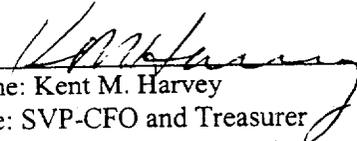
Very truly yours,

ROTHSCHILD INC.

By: 

Name: David L. Resnick
Title: Managing Director

ACCEPTED AND AGREED TO:
PACIFIC GAS AND ELECTRIC COMPANY

By: 

Name: Kent M. Harvey
Title: SVP-CFO and Treasurer

Exhibit B contains time and expense records and has been filed separately, per the Court's Amended Order Establishing Interim Fee Application, and Expense Reimbursement Procedure

ROTHSCHILD INC. BIOGRAPHIES

David L. Resnick, Managing Director heads Rothschild's Restructuring Group with over 14 years of investment banking experience. Prior to joining Rothschild, Mr. Resnick headed the restructuring group of Peter J. Solomon Company. Previously, Mr. Resnick was with Lazard Frères & Co. where he was involved in a number of the firm's major restructuring assignments. Mr. Resnick's past assignments include advising The Walt Disney Company with respect to EuroDisney, Olympia & York U.S., Corning Inc., regarding Dow Corning, Ames Department Stores, American Express Company, with respect to Shearson Lehman Holdings' interest in Prime Computer, Bidermann Industries, Pan American Corp. and Landmark Land Inc. In addition, Mr. Resnick has extensive experience with acquisitions of companies in bankruptcy, including advising Cyclops Corporation in the acquisition of the Eastern Stainless Steel Division of Eastmet Corporation pursuant to Eastmet's plan of reorganization; Sun International on their acquisition of Resort International's Paradise Island operations as part of Resort's restructuring; Usinor Sacilor (a French steel company) on their proposal to acquire LTV's steel operations during the LTV bankruptcy; and a financial buyer on its acquisition of a healthcare company in chapter 11 through the purchase of equity as part of a plan of reorganization. Mr. Resnick holds a Bachelor of Arts degree, with High Honors, from Wesleyan University, where he was elected to Phi Beta Kappa, and a M.B.A. and J.D. from The University of Chicago. He is currently a member of the Board of Directors of HomePlace of America.

Stephen S. Ledoux, Managing Director, has over 10 years of restructuring experience. Mr. Ledoux spent six years at The Blackstone Group advising both debtors and creditors in major restructuring assignments. Prior to joining Rothschild, Mr. Ledoux was Portfolio Manager of Distressed Debt at Morgens, Waterfall, Vintiadis & Company Inc., a private equity firm managing over \$600 million of distressed debt assets, where he focused on buying bank debt and bonds of troubled companies. Previously, Mr. Ledoux was at Lehman Brothers, Inc. where he focused on distressed debt research. Mr. Ledoux's experience advising distressed companies includes: Bidermann Industries, The Caldor Corporation, Columbia Gas Systems, Inc., Hills Department Stores, Inc., Leasway Transportation Corporation, The Leslie Fay Companies, Inc. and Mobile Media Corporation. Mr. Ledoux's

creditor advisory assignments include Caterair International Corporation, SCI Television, Inc. and U.S. Trails, Inc. Mr. Ledoux has a Bachelor of Sciences degree from Babson College

Matthew Savage, Managing Director, is a member of Rothschild mergers and acquisitions group. Mr. Savage joined Rothschild Inc. from Rothschild & Sons Limited, United Kingdom in 1993, having worked with Rothschild in the U.K. since 1987. Mr. Savage has recently advised National Grid on the acquisitions of Niagara Mohawk and New England Electric System, and British Nuclear Fuels on the acquisition of ABB's nuclear business and Westinghouse's nuclear business. He has also advised Henkel on the acquisition of Locitite, the City of New York on the sale of WNYC-TV and the Mexican Government on the restructuring and sale of Banpais. Mr. Savage is currently advising National Grid with respect to the Alliance RTO and other U.S. electric transmission opportunities. Mr. Savage has an MBA from Wharton School, University of Pennsylvania where he graduated top of the class in Securities Law and won the prize in Securities Analysis. He has a BA in Physics from Oxford University, England.

Robert S. Mudge, Director, focuses on the electricity sector and other infrastructure activities. He joined Rothschild in 1997 from ABN AMRO North America, Inc. where he was a Group Vice President in the Project Finance and Utilities group. Mr. Mudge has focused primarily on project financings in the energy field, ranging from numerous power and infrastructure financings domestically and abroad. His advisory clients have included the New England Electric System, KMR Power, the International Generating Company, Dominion Energy, Petroleos Mexicanos (PEMEX) and Siemens. Additionally, he led numerous power and infrastructure financing with ABN AMRO as a non-recourse lender. Mr. Mudge has extensive contacts with international financial institutions, capital markets underwriters, and multilateral/bilateral agencies. Mr. Mudge has a BA from Harvard University and an MBA from the University of Chicago.

John T. Chang, Vice President, joined Rothschild from C.C. Pace where he was the Director of Strategic Planning. Prior to Pace, Mr. Chang worked at another consulting company, Boston Pacific, as a Project Manager, after several years with a natural gas pipeline company, Iroquois Gas Transmission Company. Mr. Chang has assisted various clients evaluate and bid into many of the utility generation asset sales in the U.S. Northeast including Central Maine Power, Boston Edison, Niagara Mohawk (announced) and GPU. Mr. Chang advised National Grid on their successful acquisitions of New England Electric, EUA, and Niagara Mohawk (announced). He has also helped clients on numerous greenfield generation development and acquisition assignments in the U.S. and internationally including projects in Poland, Ghana, Equatorial Guinea, Guatemala, and Nicaragua. Mr. Chang has an MBA - Finance from the State University of New York, Buffalo; and a B.S. - Industrial Engineering from the State University of New York, Buffalo.

William R. Shaw, Vice President, is a member of Rothschild's restructuring group. Prior to joining Rothschild, Mr. Shaw was an associate in Peter J. Solomon Company's restructuring group. Mr. Shaw was also an associate at Zolfo Cooper LLC for three years specializing in turnarounds and reorganizations of distressed companies. Mr. Shaw began his career at Ernst & Young LLP providing clients with financial and accounting services. Mr. Shaw's restructuring assignments have included Key Plastics, Geneva Steel, Orbcomm Global, Tokheim Corporation, Heartland Steel, Liberty House, Petrie Retail, Coram Healthcare and Trans World Airlines. Mr. Shaw holds a Bachelor of Arts degree from Colgate University and an M.B.A. from the NYU Stern School of Business.

William D. Cannon, Vice President, is a member of Rothschild's utilities group. Mr. Cannon joined Rothschild in November 1999 from Fieldstone Inc. Mr. Cannon is focused on the power industry, specializing in mergers and acquisitions of U.S. utilities and independent power producers. At Rothschild, he has played a key role in the National Grid acquisition of Niagara Mohawk (announced). Mr. Cannon was also part of the Rothschild U.S. team for E.On's announced offer to acquire PowerGen. While at Fieldstone Mr. Cannon executed M&A related activities in the U.S. and across the globe for both public and private power companies. At

Fieldstone, Mr. Cannon worked on the Midlands and Yorkshire acquisitions in the U.K., Guaracachi acquisition in Bolivia and several private transactions in the U.S. Mr. Cannon has also completed several project finance transactions including the Quezon Power Project which was awarded "Deal of the Year" in 1997 by Project Finance International. In addition, Mr. Cannon has worked on several capital markets transactions, most notably the bond financing for the Quezon Project. Mr. Cannon has an MBA from the Columbia School of Business and a BA and BS from The Wharton School, University of Pennsylvania in Finance and in Japanese language and culture.

Jason R. Capone, Associate, is a member of Rothschild's restructuring group. Prior to joining Rothschild, Mr. Capone was a senior financial analyst in Houlihan Lokey Howard & Zukin's restructuring group for two years. He has also worked as a financial analyst at Zolfo Cooper LLC, a consulting firm specializing in turnarounds and reorganizations of distressed companies. Mr. Capone holds a Bachelor of Science in Finance and Information Systems from the NYU Stern School of Business.

Chia-Yien (Alice) Ku, Analyst, is a member of Rothschild's Mergers & Acquisition group. Ms. Ku joined Rothschild in 2000. Ms. Ku holds a Bachelor of Economics from the University of Pennsylvania (Wharton School).

Exhibit D contains time and expense records and has been filed separately, per the Court's Amended Order Establishing Interim Fee Application. and Expense Reimbursement Procedure