



Pacific Gas and Electric Company Securitization

A. 20-04-023

TURN HEARING EXHIBIT

TURN-38

PG&E vs. TURN transaction valuation

PG&E vs. TURN transaction valuation

	PG&E	TURN	Difference TURN-PG&E
<i>Assets</i>			
Initial Shareholder Contribution	1.80	1.80	0.00
Additional Shareholder Contributions	3.95 (at 7.34%)	2.82	-1.13
<u>Customer Credit Trust investment returns*</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Subtotal	5.75	4.62	-1.13
<i>Liabilities</i>			
Recovery Bonds	-7.50	-7.50	0.00
Interest tax shield	0.00	-0.85	-0.85
Surplus sharing (75% of positive Trust ending value)	-0.41	-0.34	0.07
<u>CCT shortfall tax gross-up</u>	<u>0.00</u>	<u>-0.01</u>	<u>-0.01</u>
Subtotal	-7.91	-8.70	-0.79
Net present value	-2.16	-4.08	-1.92
Testimony NPV	0.12	-4.08	-4.20

* The NPV at a discount rate equal to the expected return is zero. See *Valuation* (5th edition) by Koller, Goedhart, Wessels, p. 35: “The cost of capital ... equals the minimum return that investors expect to earn from investing ... That is why the terms *expected return to investors* and *cost of capital* are essentially the same. The cost of capital is also called the discount rate, because you discount future cash flows at this rate when calculating the present value of an investment, to reflect what you will have to pay investors” (emphasis in original).

PG&E vs. TURN transaction valuation

	PG&E 7.34%	TURN Risk-adjusted discount rates	Difference TURN-PG&E	% of total
<i>Assets</i>				
Initial Shareholder Contribution	1.80	1.80	0.00	0%
Additional Shareholder Contributions	3.95	2.82	-1.13	27%
<u>Customer Credit Trust investment returns</u>	<u>-0.66*</u>	<u>0.00</u>	<u>0.66</u>	<u>-16%</u>
Subtotal	5.09	4.62	-0.47	11%
<i>Liabilities</i>				
Recovery Bonds	-4.56	-7.50	-2.94	70%
Interest tax shield	0.00	-0.85	-0.85	20%
Surplus sharing (75% of positive Trust ending value)	-0.41	-0.34	0.07	-2%
<u>CCT shortfall tax gross-up</u>	<u>0.00</u>	<u>-0.01</u>	<u>-0.01</u>	<u>0%</u>
Subtotal	-4.97	-8.70	-3.73	89%
Testimony NPV	0.12	-4.08	-4.20	100%

* Under PG&E's assumptions, the after-tax return on the Trust's investments is ~6%, so the NPV at PG&E's higher discount rate, 7.34%, is negative.