PG&E HEARING EXHIBIT PGE-12

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PG&E'S SECURITIZATION 2020

Chapter 2 ……….. Background on Utility Securitization – Rebuttal (Steffen Lunde)

PACIFIC GAS AND ELECTRIC COMPANY

CHAPTER 2

BACKGROUND ON UTILITY SECURITIZATION – REBUTTAL

WITNESS: STEFFEN LUNDE

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A. Transaction Structure [Issue 7]

PG&E's proposed Securitization transaction has several unique features compared to typical utility securitizations. The key structural differences are highlighted in Table 2-10 and further described below.

TABLE 2-10
KEY STRUCTURAL DIFFERENCES

	Typical Utility Securitization	PG&E Securitization
Upfront Transaction Costs & Expenses	Included in the issuance amount; does not impact proceeds to utility	Not included in the issuance amount; PG&E to pay costs and expenses directly
Securitization Charge or Fixed Recovery Charge (FRC)	Ratepayers responsible for paying securitization via charge on utility bill	PG&E will provide a Customer Credit designed to equal the FRC and will share 25 percent of any surplus in the Customer Credit Trust with customers

1. Upfront Costs Savings

In a typical utility securitization, the upfront transaction costs and expenses associated with the securitization will be added to the issuance amount and the net proceeds received by the sponsoring utility will therefore not be impacted by these variables. In PG&E's proposed transaction, the upfront transaction costs and expenses will not be added to the issuance amount. Instead, the issuance amount is fixed at $7.5 billion and PG&E itself will pay all transaction costs and expenses from the issuance proceeds. Each additional dollar of upfront transaction costs and expenses will therefore reduce the net proceeds available to PG&E, which provides significant economic incentive for PG&E to get the most cost efficient execution possible.

2. Recovery Bond Interest Rate

PG&E's proposed transaction has unique structural features that make it very different from the typical utility securitization. As further described in Chapter 3, Transaction Overview – Rebuttal (M. Becker), PG&E's funding of the Customer Credit Trust and the associated Customer Credits, along with the proposed sharing arrangements with respect to any surplus that exists in the Customer Credit Trust at the end of the life of the Trust (75 percent to PG&E and 25 percent to customers), mean that PG&E will have significant economic incentive to manage the securitization issuance with a view to reduce the cost of the Recovery Bonds and keep the interest rate and other pricing terms as low as possible. Obtaining the lowest possible Recovery Bond interest rates and terms keeps ratepayer impacts to a minimum and increases the chances of a surplus in which both the customers and PG&E will participate per the sharing arrangement.

B. Underwriters [Issue 7]

Wild Tree Foundation (Wild Tree) asserts that the Commission should not approve a financing order that relies on underwriters to determine the material terms of the Recovery Bonds after the financing order is issued.[1] However, the underwriting banks have the deepest knowledge base when it comes to successfully marketing and ultimately selling bonds to investors. Citi, as PG&E's structuring advisor, has considerable expertise and insight into the marketing and structuring of securitization bonds, and has been involved in the large majority of utility securitizations since the inception of the market in 1995.

Wild Tree also claims that underwriters have an inherent conflict of interest in determining the cost of securitized bonds because they "will want to negotiate for relatively higher interest rates so that they will be able to sell the bonds with the least effort, satisfying the desires of their investor clients for high interest rates."[2] This claim is false for a number of reasons. The bond interest rate is a function of the market conditions at the time the bonds are sold and is influenced not only by general market conditions but also by factors including the size of the offering, ratings of the bonds, and the number and quality of competitive bond

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1 Wild Tree-Rothschild, p. 23, lines 1-9.

2 *Id.*

offerings coming to the market at or around the same time. The underwriters are actively engaged in the market on a daily basis and best equipped to navigate the changing market environment, as well as any challenges and deal nuisances, which is critical to achieve successful deal execution and ultimately a low Recovery Bond interest rate for PG&E.

Citi, as both financial advisor and underwriter, is accountable to its utility clients to achieve the best terms, especially under the unique terms of this transaction, as well as being accountable for reputational risk associated with any negative outcome of a transaction. Citi's reputation as a trusted advisor and underwriter is demonstrated through its position as the top ranked underwriter of utility securitizations over a more than 20 year time horizon. Citi's continued focus on clients' needs and goals (including placing the bonds at the lowest possible interest rates) has contributed to ongoing partnerships in the utility securitization space and will lead to more business in the future. In conclusion, the underwriters are not conflicted and are focused on executing the best deal and ultimately achieving the lowest bond interest rate available.