

*The following model is for illustrative purposes only and based on calculations used by Commissions in previous utility securitizations. Estimates used in calculations will vary with market conditions and are conservative for purposes of illustration.*



[www.saberpartners.com](http://www.saberpartners.com)

Questions: Paul Sutherland. 203-431-2686, [psutherland@saberpartners.com](mailto:psutherland@saberpartners.com)

## Assumptions for Illustrative Comparison of Securitization to Conventional Financing

	Amount	
	(%)	(\$ millions)
Project Capitalization		<b>1,000</b>
Conventional capitalization		
Common equity	<b>50.0%</b>	
Short term debt	<b>5.0%</b>	
Long term debt	<b>45.0%</b>	
Cost of Conventional Financing		
Common equity	<b>12.0%</b>	
Short-term debt	<b>5.0%</b>	
Long-term debt	<b>7.7%</b> <sup>(1)</sup>	
Cost of Securitization debt	<b>7.0%</b> <sup>(1)</sup>	
Income tax rate		
Federal	<b>35.0%</b>	
State	<b>5.5%</b>	
Composite	<b>38.6%</b>	
Revenue related tax rate (franchise or gross receipts taxes)	<b>1.0%</b>	
Financing term <sup>(2)</sup>	<b>12</b>	years

<sup>(1)</sup> Securitization bonds would be rated Aaa/AAA, while it is assumed the utility rating is Baa/BBB. The differential in nominal yield will vary with market conditions.

<sup>(2)</sup> Utility securitizations can and have been done with terms (final maturities) of up to 20 years. See, for example, Allegheny Energy totaling \$459 million in April, 2007 with final maturity in July, 2027.

## Illustrative Savings from Securitization

Present Value Revenue Requirement Savings On  
\$1 billion Financing  
(\$ Millions)

	Revenue Requirements	
	Nominal	Present Value
Traditional Financing - Cumulative total	\$1,895	\$1,326
<i>less</i> Securitization Financing	1,470	1,010
<i>less</i> Incremental Securitization Transaction Costs (2.5%) <sup>(1)</sup>	25	25
Savings	401	291
Savings as % of Principal	40%	29%
Savings as % of Traditional Financing Revenue Requirements	21%	22%

<sup>(1)</sup> In practice, incremental transaction costs are both upfront and on-going. For simplicity, here they are represented as a single upfront cost.

## Marginal Cost of Capital

### Traditional Cost of Capital

Source of Capital	Capitalization	Capital Structure	Annualized Cost	Weighted Average Cost of Capital (WACC)
Common Equity	500	50.00%	12.0% <sup>(1)</sup>	6.00% <sup>(2)</sup>
Short-Term Debt	50	5.00%	5.0%	0.25%
Long-Term Debt	450	45.00%	7.7%	3.47%
Total Capitalization	1,000	100.00%		9.72%

### Securitization

Securitized Debt	1,000	100%	7.0%	7.00%
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<sup>(1)</sup> After tax cost of equity

<sup>(2)</sup> Weighted Cost of Equity (WCE)

## Traditional Financing Calculation of Revenue Requirements (Cost of Service)

	(a)	(b)	(c)	(d)	(e)	(f)	(g) Revenue Requirement (Cost of Service)	(h)
Year	Rate Base <sup>(1)</sup>	Return	Return on Equity	Income Taxes	Annual Amortization	Revenue Related Taxes	Nominal	Present Value
		(a) * WACC	(a) * WCE	(c) * Tax Factor <sup>(2)</sup>			(a)+(d)+(e)+(f)	PV of (g) <sup>(3)</sup>
2009	1000	97	60	38	83	2	220	206
2010	917	89	55	35	83	2	209	183
2011	833	81	50	31	83	2	198	161
2012	750	73	45	28	83	2	186	142
2013	667	65	40	25	83	2	175	125
2014	583	57	35	22	83	2	164	109
2015	500	49	30	19	83	2	152	95
2016	417	40	25	16	83	1	141	82
2017	333	32	20	13	83	1	130	70
2018	250	24	15	9	83	1	118	60
2019	167	16	10	6	83	1	107	51
2020	83	8	5	3	83	1	96	42
2021	0	0	0	0	0	0	0	0
	6,500	631	390	245	1,000	19	1,895	1,326

<sup>(1)</sup> For simplicity, we have ignored effect of deferred taxes and other adjustments to rate base

<sup>(2)</sup> Tax factor = Composite tax rate/(1-Composite tax rate)

<sup>(3)</sup> Discounted at the securitization cost rate

**Securitization Financing  
Calculation of Revenue Requirements  
(Cost of Service)**

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
							Revenue Requirement (Cost of Service)	
Year	Unamortized Principal	Interest	Return on Equity	Income Taxes	Annual Principal Payments	Revenue Related Taxes	Nominal	Present Value
		(a) * WACC					(a)+(d)+(e)+(f)	PV of (g)
2009	1,000	70	0	0	83	2	155	145
2010	917	64	0	0	83	1	149	130
2011	833	58	0	0	83	1	143	117
2012	750	53	0	0	83	1	137	105
2013	667	47	0	0	83	1	131	94
2014	583	41	0	0	83	1	125	84
2015	500	35	0	0	83	1	120	74
2016	417	29	0	0	83	1	114	66
2017	333	23	0	0	83	1	108	59
2018	250	18	0	0	83	1	102	52
2019	167	12	0	0	83	1	96	46
2020	83	6	0	0	83	1	90	40
2021	0	0	0	0	0	0	0	0
	6,500	455	0	0	1,000	15	1,470	1,010

(1) Securitization revenue requirements can be levelized if so desired

(2) Discounted at the securitization cost rate

## Sources of Securitization Savings

	<b>Amount (\$ millions)</b>
Eliminate Income Tax Expense	<b>245</b>
Debt is less expensive than equity	<b>149</b>
Securitization debt is less expensive than corporate debt	<b>28</b>
Revenue Related Taxes are less	<u><b>4</b></u>
Sub-total	<b>426</b>
less Incremental securitization transaction costs	<u><b>(25)</b></u>
Net Nominal Savings	<b>401</b>