VANDERBILT Ave.
ASSET MANAGEMENT

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I. Utility Sector Overview

We believe the utility sector is attractive for a number of fundamental and technical reasons:

1. Companies in the Sector have returned to a back-to-basic strategy that focuses on their core competences. They are cleaning up their balance sheets through the sale of non-core operations and foreign assets. In addition, they are exiting or reducing their exposure to the merchant energy market.

2. Financial liquidity is strong as companies carry cash balances at historically high levels.

3. The construction cycle is mostly completed for the majority of companies in the industry. Therefore, capital expenditures will not be a major factor for several years. Therefore, new issue supply is expected to decline significantly during 2004. Demand should remain strong for their securities as the sector represents 7.72% or $172 billion of the Lehman Credit Index.

II. In view of the positive fundamental reasons aforementioned for the sector, we analyzed Pacific Gas & Electric credit.

III. PG&E Corporation (Pacific Gas & Electric)

	PG&E	Peer Group
Ratings:	Baa2/BBB	N/A (Bondscore)
EBITDA Interest Coverage:	3.7x	4.2X
EBITDA-Capex Interest Coverage:	1.9x	1.7X
Net DEBT/EBITDA:	2.3x	4.2x
ST/LT Debt:	2.6%	6.9%

PG&E is a holding company that conducts business through its main subsidiary, Pacific Gas & Electric Company (PGEC), operating in northern and central California. The company has approximately 5 million of electric distribution customers and 4 million of natural gas distribution customers as of at the end of 2003. On April 6, 2001, PGEC filed for bankruptcy during the California power crisis. The Company was not allowed to raise rates to its customers as the market price for power rose significantly. After three years, PGEC emerged from bankruptcy on April 12, 2004. As a part of the bankruptcy agreement, PGEC was required to issue $6.7 billion of debt and obtain investment grade ratings. Our position was purchased at the time of this new issue.

1. Credit Positives

a. The settlement agreement between the company and the California Public Utilities District (CPUC), which allowed PGEC to emerge out of the bankruptcy, provides a high level of regulatory certainty for nine years. The agreement also allows the company to earn at least 11.22% of ROE during this same period.

b. Leverage will decrease quickly as the company pays down debt from cash on hand and the proceeds from the $2.2B to $3bn of rate debt reduction bonds to be issued over the next 12 months.

c. The company is based in a highly attractive service territory. The company's service territory has a large and diversified economy with a GDP of approximately $561 billion in 2002, which would be equal to the 12th largest economy in the world.

d. The company expects to generate between $500-$700 million of free cash flow in 2004 and 2005 after common share repurchases.

e. According to the settlement agreement, the company is not allowed to pay dividends until it achieves a 52% equity ratio which is not expected to happen until late 2005.

2. Credit Concerns

a. The company needs to continue to improve its regulatory and political environment given its recent history during the California energy crisis.

b. The company has relatively high-energy rates relative to other competitors in the region.

3. Recommendation - Buy

Based on an improving credit profile and attractive spread levels, we recommend to buy. New issues were priced relatively cheap in order to attract investors' interest. (For instance, PCG 4.8% 2014 issue was priced at +109 over the ten year Treasury. Earlier this year, Southern Cal Edison, the other major California utility with similar credit profile issued a 5.0% 1/15/2014 issue at +78 over the ten year Treasury.)

Besides doing our own credit research, we subscribe to CreditSights, which is an independent research firm that provides unbiased research comments. We highlight below some of their comments on Utility sector and Pacific Gas and Electric.

I. Utility Sector

- M&A will be slow in 2004.
- There is room for investment grade Utility names to tighten, mainly on technicals.
- Equity investors' real return growth will mostly come from dividend increases due to the tax law changes and increasing free cash flow.
    - BBB- average dividend payout ratio was about 65% and dividend yield was about 4.3% as of at the end of 3Q03.
- Distressed power plant asset sales will finally pick up in 2004.
- Power trading will become a real business again, but with very different players.
- Electric Utility Q3 LTM Credit Comparisons:

	HY Average	BBB Average	A Average
Debt-to-Capital	76.3%	62.1%	57.4%
Total Debt/EBITDA	9.1x	4.2X	3.6x
EBITDA/Int. Coverage	1.4x	4.0x	5.2x

II. Pacific Gas & Electric

- According to CreditSight's calculation, PGEC's credit metrics will be close to its BBB average, with exception of debt to capital.

	PGEC	BBB Average	A Average
Debt-to-Capital	72.3%	62.3%	57.3%
FFO/Total Debt	20.9%	18.4%	22.7%
FFO/Interest Coverage	2.7x	2.9x	4.0x

- PGEC will be a conservative utility company when it emerges from bankruptcy.
- The new bonds are guaranteed to be "pretty much" safe at least for the next several years in light of the agreement between the company and the CPUC.

Vanderbilt Research Team

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Emad is the Managing Partner and Chief Executive Officer of Vanderbilt Avenue Asset Management LLC. Vanderbilt's client base includes Multi-national Corporations, Public Funds, Foundations/Endowments, and Taft Hartley accounts.

Previously, Emad was Chairman of Institutional Business at Pioneer Investments. Pioneer investments has more than $300 Billion in assets under management. The parent of Pioneer, UniCredit S.p.A., is the largest bank in Italy and the second largest bank in Europe. Pioneer had purchased Vanderbilt Capital Advisors, of which Emad was the founder and Chief Executive Officer.

Emad has had numerous articles published in professional and academic journals such as *The Journal of Forecasting*, *The American Economist* and *The Journal of Fixed Income*. He is a Board member of The National Investment Company. Emad was a member of the Board of Advisors of the Pacific Institute, The Advisory Committee of Fulcrum Global Partners, The Chief Executive Officers Club and formerly a board member of The Foreign Policy Association. He also served on the Board of Directors of the University of Albany Foundation, NextGen Healthcare Inc., The Park Avenue Bank, AA Bank and The New Providence Fund and Associates LP.

Emad is an FINRA Arbitrator. He is also a member of the National Association for Business Economists and The Economic Club of New York. Emad served as an adjunct professor at the University of Kansas and St. John's University.

Emad holds a Bachelor of Science from the University of Albany, and a M.A. and Ph.D. in Economics from the University of Kansas.