Docket No. 150171-EI:

Duke Energy Florida, Inc.

Petition for issuance of nuclear asset-recovery financing order, by Duke Energy Florida, Inc. d/b/a Duke Energy.

Witness: **Direct Testimony of PAUL SUTHERLAND** appearing on behalf of the staff of the Florida Public Service Commission

Date Filed: September 4, 2015

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF PAUL SUTHERLAND

DOCKET NO. 150171-EI

September 4, 2015

Q. Please state your name and business address.

A. Paul R. Sutherland, Saber Partners, LLC (Saber or Saber Partners), 44 Wall Street, New York, New York 10005.

Q. By whom are you employed and what is your position?

A. I am a member of Saber Partners, LLC, and serve as a Senior Advisor.

Q. Please describe your duties and responsibilities in that position.

A. My responsibilities with Saber include work in the area of data management, financial modeling, financial analysis, issuance cost auditing, deal structuring, pricing analysis with respect to relative value and review of issuance advice letters, all on behalf of public utility commission clients. I have performed these functions while advising the following regulatory bodies regarding utility securitizations: Public Utility Commission of Texas, West Virginia Public Service Commission, New Jersey Board of Public Utilities, Florida Public Service Commission (Commission), and the Wisconsin Public Service Commission.

Q. Please describe your educational background and professional experience.

A. I have a bachelor's degree in electrical engineering from Cornell University. I also have a master's degree in business administration from the University of Chicago.

I began working with Florida Power & Light Company (FPL) in 1976 doing economic analysis of new energy technologies in the Research and Development (R&D) Department. After several years, I moved to the Finance Department as a Financial Analyst. Over the next 20 years I held various positions, including Coordinator of Financial Systems, Manager of Corporate Finance, Manager of Financial Analysis and Forecasting, and Assistant Treasurer of

both the utility and FPL Group Capital. Before leaving FPL in 1998, I was Director of Finance, Accounting & Systems for the FPL Energy Marketing and Trading Division. During my time with FPL I have testified as an expert witness on cost of capital and financial integrity. I have also taught classes on economic decision making and on quality improvement. It was during this time (1989) that FPL became the first non-Japanese company to win the Deming Prize for Total Quality Management.

In 2000, after a year as adjunct professor of mathematics at Palm Beach Atlantic College, I joined Saber Partners, LLC as a Senior Managing Director. I have been associated with Saber Partners since that time in various roles, including my current position as Senior Advisor. I have been involved in 12 investor-owned utility securitization transactions since 2000.

Q. Can you provide some of your background and experience with utility financings while you were at FPL?

A. Yes. While at FPL, as Manager of Corporate Finance and Assistant Treasurer, I helped FPL complete over $2 billion of debt and equity financings in the public capital markets. FPL executed both competitive and negotiated securities offering transactions. FPL was also among the first to issue long-term variable rate tax-exempt debt that could be (and was) later converted to a fixed rate. Part of my job was to prepare and, along with the Treasurer and Chief Financial Officer (CFO), deliver rating agency presentations to support the credit ratings from the three major rating agencies.

Q. Are you sponsoring any exhibits in this case?

A. Yes, I am sponsoring:

Exhibit No. _____ (PS-1), Glossary;

Exhibit No. _____ (PS-1a), RRBs not ABS for Financial Reporting;

Exhibit No. _____ (PS-1c), FASB ASC

Exhibit No. ____ (PS-1b), Accountants Handbook

Exhibit No. _____ (PS-2), Organization Chart;

Exhibit No. _____ (PS-3), New Issue Pricing Spreads, 4-6 Year Average Life;

Exhibit No. _____ (PS-4), New Issue Pricing Spreads, 9-10 Year Average Life;

Exhibit No. _____ (PS-5), Excerpt from Independent Advisor Report;

Exhibit No. _____ (PS-5a), Merrill Lynch E-Mail;

Exhibit No. _____ (PS-6), AAA Utility Securitization Spreads to AAA Credit Cards;

Exhibit No. _____ (PS-6a), Wells Fargo Research Report;

Exhibit No. _____ (PS-7), Centerpoint 1/11/2012 Securitization;

Exhibit No. _____ (PS-7a), 2003 Citigroup Study;

Exhibit No. _____ (PS-8), Citigroup Clarification;

Exhibit No. _____ (PS-9), CEHE Securitization;

Exhibit No. _____ (PS-10), AAA Rated Comparable Pricing;

Exhibit No. _____ (PS-11), Credit Spreads for Auto Loan ABS vs. Credit Card ABS;

Exhibit No. _____ (PS-12), Servicer Set-Up Fees;

Exhibit No. _____ (PS-13), Underwriting Spreads, 2001-2014;

Exhibit No. _____ (PS-14), Investment Dealers Digest Article;

Exhibit No. _____ (PS-15), Orders Crediting Costs Above Incremental to Ratepayers;

Exhibit No. _____ (PS-15a), Article Re: LA Public Facilities Authority;

Exhibit No. _____ (PS-16), Ordering Paragraphs;

Exhibit No. _____ (PS-17), Investor Participation Profile;

Exhibit No. _____ (PS-18), Principal Amount of Utility Securitization Financing Issued by Year;

Exhibit No. _____ (PS-19), 10-Year AAA Stranded Assets 2010 to Present; and

Exhibit No. _____ (PS-20), Utility Securitization Transactions since 1997.

Q. What is the purpose of your testimony?

A. First, I will provide an overview of utility securitization financing to explain what it is, how it differs from other types of debt offerings and why it is advantageous to the ratepayers to use it in applications such as with the nuclear-asset recovery bonds. Then I will provide some historical context by describing how utility securitization bonds were used previously in Florida when, in 2006, FPL worked with the Commission to use this type of financing to recover storm-related costs. The main purpose of my testimony is to analyze the utility securitization market and describe certain securitization "Best Practices" that have developed over the past 15 years and from the 12 investor-owned utility securitization transactions that I have participated in. I will provide an overview of the most significant costs of utility securitization transactions and describe some specific areas where using Best Practices can result in substantial ratepayer savings. In addition, I will discuss the procedure for pricing these transactions when selling them to underwriters and investors to show the differences that can occur due to the manner in which the transactions are structured and executed, again with reference to Best Practices.

Q. What is securitization?

A. I have included a glossary of terms as Exhibit No. ____ (PS-1) to help in understanding some technical financial terms in the language of the financial markets. In general, securitization is a process by which a pool of financial assets, such as loan, credit card or other receivables, is used as collateral for a bond offering. The financial asset generates a flow of cash that is used to pay principal and interest on the bonds. To give buyers of the bonds comfort that only they have a claim on the assets and will be repaid, the pool of assets is created and transferred to a special legal entity known as a trust, or in the case of utility securitization, to an entity owned by the utility but which is protected from any credit problems of the utility. This is known as a "bankruptcy remote" entity and is often called a

special purpose entity (SPE). This means it has only one purpose i.e., to own the assets and pay the principal and interest on the bonds. When establishing this "special purpose entity" the entire right, title and interest in the assets are transferred at a "fair market" value to the SPE. The SPE pledges the assets to secure the bonds, and the cash flows from those assets are used to pay principal and interest on the bonds. Thus, the risk to the bondholder is just the risk associated with the cash flows from the assets in the SPE. The assets can be physical (such as plant and equipment) or financial (such as a loan receivable or the right to some other revenue stream).

Q. Does a securitization have a specific maturity or time when bonds are paid?

A. Securitization bonds usually have multiple maturities such as 3, 5, 10 or 15 years. These maturities are also known as "tranches" or a series, part of a larger issue. Rather than pay bonds all at once at the maturity, the bonds pay off over time like a home mortgage. They pay principal and interest over a number of years. The schedule of principal payments is known as the amortization schedule. Each tranche will have its own amortization schedule. When one averages those payments over the time it takes to receive all payments for a specific tranche or series, one gets the weighted average life of the tranche. It is known by the acronym WAL.

Q. How do investors judge the ability of the SPE to repay the bonds in order to decide what the risks are and the rate of interest they should receive?

A. The securities sold by the SPE are generally evaluated by nationally recognized independent credit rating agencies such as Moody's and Standard & Poor's who evaluate the financial and legal characteristics of the SPE and the bonds and give an opinion as to the likelihood of receiving principal and interest on the bonds on time. They evaluate or rate this likelihood on a scale from highly likely to be repaid on time to unlikely to be paid on time. As a short cut for investors to judge the credit of one bond to another, the rating agencies assign

letters to their opinions. This scale is known as a "ratings scale" and usually is denoted by letters such as AAA – the best and strongest credit - to CCC – for very weak credit. This likelihood of repayment is also known as "default risk," or the likelihood that an issuer will not pay on time and defaults on its obligation.

Q. What is the common name for these types of securities in a securitization?

A. When the assets are intangible property rights or financial assets, they are commonly referred to as asset-backed securities (ABS). Common types of asset-backed securities include those backed by corporate loans, credit card receivables or auto loan receivables.

Q. What rating do most ABS securities receive?

A. That always depends on the quality and amount of the assets, the legal structure, and a host of other factors. Generally, the higher the rating, the lower the interest rate on the bonds. So issuers borrowing against the assets try to structure the transaction to receive a high rating, such as AAA, to make the most efficient use of the assets as collateral for the bonds. However, there are also lower rated ABS securities, and even within a single SPE there might be two or more classes of securities with different rights to the collateral in the pool, and thus different ratings. The market for asset-backed securities is very complex, and there are a wide variety of credit issues and concerns with asset-backed securities and while many ratings may be AAA, they are treated differently by investors even with the same high rating.

Q. Are utility securitization bonds just another type of ABS?

A. No. While they do have some things in common, there are several important differences that make utility securitization debt more secure than even the best AAA-rated ABS bonds. The common feature of a utility securitization with ABS securities is that they use an SPE to issue bonds based on a cash flow from the assets in the SPE. Some terminology describing the SPE is also the same. However, on critical features relating to the credit-

worthiness of the bonds, utility securitizations are decidedly not like what is commonly referred to as "asset-backed securities."

For example, in each state where utility securitization bonds have been issued, these bonds were done so under specific enabling legislation passed by the state legislature. The legislation created a new type of intangible property which consists of the right to charge, bill and collect amounts from virtually all electric customers in a given service territory. Thus, securitized utility bonds are backed by an enforceable **regulatory** right, not by an enforceable **contract** right. As I discuss later in my testimony, important differences in investors' rights and remedies arise by reason of this difference in the nature of the rights that back securitized utility bonds. For this reason, the Office of Chief Accountant of the United States Securities and Exchange Commission (SEC) has directed that securitized utility bonds not be treated as "asset-backed securities" for financial reporting purposes. See Exhibit No. ____ (PS-1a), attached to my testimony.).

Q. What are the key provisions of such legislation?

A. Utility securitization legislation allows the utility regulatory commission in the respective state to issue irrevocable financing orders that (i) segregate a specific component of the retail rate throughout the service territory, (ii) cause the right to receive this component to be treated as an interest in property that can be bought, sold or pledged, (iii) authorize the utility to sell such property to an SPE, (iv) authorize the SPE to issue debt secured by such property, and (v) require the utility which sold the property to use the proceeds of the sale for a specific purpose.

The fact that the order is irrevocable is unique to securitized utility bonds. It means the regulatory commission is giving up its traditional ongoing oversight and ability to revoke, revise or issue new orders. It binds future commissions irrevocably.

The state also pledges not to do certain things that might be detrimental to the bondholder. For example, Section 366.95(11)(b) states:

> "The state pledges to and agrees with bondholders, the owners of the nuclear asset-recovery property, and other financing parties that the state will not:
>
> 1. Alter the provisions of this section which make the nuclear asset-recovery charges imposed by a financing order irrevocable, binding, and non-bypassable charges;
>
> 2. Take or permit any action that impairs or would impair the value of nuclear asset-recovery property or revises the nuclear asset-recovery costs for which recovery is authorized; or
>
> 3. Except as authorized under this section, reduce, alter, or impair nuclear asset-recovery charges that are to be imposed, collected, and remitted for the benefit of the bondholders and other financing parties until any and all principal, interest, premium, financing costs and other fees, expenses, or charges incurred, and any contracts to be performed, in connection with the related nuclear asset-recovery bonds have been paid and performed in full."

Q. What other characteristics of utility securitization debt tend to make it more creditworthy and less risky than ABS debt?

A. First of all, and most importantly, because the obligation to pay the securitized charge arises from state regulation, and not by contract, the obligation of the ratepayers is joint and several. This means that all the retail ratepayers are jointly responsible. If one ratepayer fails to pay his bill, the shortfall will be allocated among the remaining ratepayers. The regulatory commission guarantees that rates will be adjusted to make up for the shortfall so that there will be enough money to pay principal and interest on time. If any one ratepayer does not pay for any reason, then others ratepayers must pay. This is to be distinguished from a credit card or

mortgage ABS where if one customer does not pay his or her credit card bill or mortgage for whatever reason, the remaining customers in the pool of credit card receivables or mortgages do not become responsible for the shortfall. As a consequence, this means that investors in conventional ABS debt might not receive all their principal and interest on time. This is a material difference.

Second, the securitized charge is non-bypassable, meaning that as long as the ratepayer takes delivery of electricity by means of wires owned by the utility or its successor, there is no way the ratepayer can avoid the charge. In addition, as I said earlier, the financing order issued by the regulator is irrevocable and therefore cannot be revisited at any time during the life of the bonds. This makes it very important for the Commission to have a complete understanding of the transaction up front, which is a key reason for the Commission, when making irrevocable decisions, to have available experts and independent and experienced financial advisors to assist them in discharging their duties.

Q. What do investors look at when evaluating a bond besides the interest rate and the likelihood of repayment?

A. Two investor concerns are related to uncertainty regarding the timing of principal repayment.. Investors ask, first, will I get my investment back sooner than expected? and second, will I get my investment back later than expected? These two types of uncertainty are known as "prepayment risk" and "extension risk," respectively.

Usually a bond has a specific schedule of principal and interest payments. Investors are lending money (by buying the bonds), and they want to earn a return over a specific time period. However, bonds could be sold with the issuer's option (referred to as a "call option") to pay back the investor sooner than scheduled. The existence of a call option results in prepayment risk. The bond issuers might want to pay back sooner for a variety of legal or managerial reasons, but usually it is because interest rates are lower so issuers can sell a new

bond at a lower rate to pay off the older bond at a higher rate. Investors who get their money back sooner might consider it a good thing but not if they can't reinvest at the same or better rate they are presently getting. The capital markets usually extract a premium for this "prepayment risk."

Q. Do AAA-rated ABS bonds typically have prepayment risk?

A. Yes. Many AAA-rated ABS flow through substantially all payments received in respect of the specific collateralized pool of financial assets, such as receivables and mortgages, even though this might force investors to accept repayment of their principal investment earlier than scheduled and expected when they initially bought the security.

Q. Do utility securitization bonds typically have prepayment risk??

Most utility securitization bonds do not have prepayment risk, and Duke Energy Florida, LLC (DEF) has proposed that its nuclear asset-recovery bonds be structured so as to eliminate all prepayment risk. I agree with this aspect of the transaction structure proposed by DEF based on current market conditions. With proper education of investors, I expect this to be a significant marketing advantage for the proposed nuclear asset-recovery bonds when compared to AAA-rated traditional ABS. I also expect this aspect of the transaction to make DEF's nuclear asset-recovery bonds more attractive to traditional corporate bond investors.

Q. Can you provide additional examples of features of the proposed AAA-rated nuclear asset-recovery bonds that might distinguish them from traditional "AAA" ABS?

A. Yes. Utility securitization bonds also have an advantage compared to many AAA-rated ABS with respect to extension risk. Rating agencies' stress-case studies of ABS often show there is significant risk that AAA-rated ABS will return investors' principal later than scheduled due to a number of different factors. Investors usually require additional yield to compensate for any risks like extension risk. I believe that the proposed nuclear asset-recovery bonds will be structured such that any "extension risk" will be insignificant. Indeed,

we have in many stress-case scenarios seen that this risk is statistically insignificant. That usually cannot be said of most ABS bonds because of how they are structured.

Q. What makes utility securitization bonds have inherently less extension risk?

A. As I have described, securitized utility bonds represent a joint and several liability of all ratepayers. In addition, such bonds are structured with a true-up mechanism contained in the financing order that adjusts the charge on consumers to whatever level is necessary to meet the schedule of principal and interest payments. This mechanism requires the nuclear asset-recovery charge to be adjusted periodically pursuant to a pre-approved formula, either semi-annually or more frequently if desired to ensure the principal and interest is paid according to schedule. Thus, if there were an unexpected decline in energy sales for some period, the charge per KWH could be increased subsequently to make up for the lower collections. The true up mechanism is very responsive to changes in collections. In other words, it is a robust adjustment mechanism to collect from electricity ratepayers whatever is needed to meet the bond's obligations.

Q. How can the value of such favorable credit characteristics be captured for the bond issuer, or in this case, the utility ratepayer?

A. The most important way to capture the value from investors is to describe accurately and present the characteristics of the utility securitization in the disclosure documents accompanying the sale of the bonds to investors. The SEC registration statements pursuant to which a number of prior securitized utility bonds have been offered have provided detail about the unusual and superior credit quality of the securities. For example, SEC registration statements for investor-owned utility securitized bonds issued in 2007 for the benefit of Monongahela Power Company and for the Potomac Edison Company include the following language:

Credit Risk: PSC-Guaranteed True-Up Mechanism and State Pledge Will

Limit Credit Risk. In the Financing Act, the State of West Virginia pledges to and agrees with the bondholders, any assignee and any financing parties that the state will not take or permit any action that impairs the value of environmental control property or, except as part of the true-up process, reduce, alter or impair environmental control charges that are imposed, collected and remitted for the benefit of the bondholders, any assignee, and any financing parties, until any principal, interest and redemption premium in respect of environmental control bonds, all financing costs and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full.

The broad-based nature of the true-up mechanism and the State Pledge serve to effectively eliminate, for all practical purposes and circumstances, any credit risk to the payment of the bonds (i.e., that sufficient funds will be available and paid to discharge the principal and interest of each issue of bonds when due).

If the full benefit of these features is to be captured for ratepayers, it is my professional judgment that marketing efforts beyond investor-owned utility securitization "bond transaction norms" (referred to on page 4 of witness Buckler's testimony) will be required. Precise, accurate and complete disclosure is required so that investors can be informed of and evaluate the special characteristics of the nuclear-asset recovery bonds. To do less, or to do only what was done in other selected transactions, without focusing on the unique characteristics of these bonds is likely to leave money on the table.

Q. Please explain in more detail the proposed role of the SPE in this nuclear asset-recovery bond financing.

A. The SPE is structured so as to separate the nuclear asset-recovery bond credit from the credit of the sponsoring utility, in this case DEF. It is this financial and legal separation that

allows the bonds to carry a AAA credit rating while the utility's corporate credit rating is single A minus. The activities of the SPE should be restricted by the financing documents so that it cannot engage in any activities unrelated to this financing without receiving a rating confirmation from the rating agencies.

The SPE will be owned by DEF and will be capitalized by DEF such that its equity capital is 0.5 percent of the SPE's total assets. DEF has proposed that it be allowed to earn a return on this equity capital equal to the yield on the longest tranche of the nuclear asset-recovery bonds. Alternatively, DEF's return could be limited to the actual earnings on the capital. This is something that can be addressed in the financing order.

Q. Can you summarize the roles of the various participants in a typical utility securitization transaction?

A. The easiest way to understand the various roles it to look at the organization chart in Exhibit No. _____ (PS-2), attached to my testimony. __ (PS-2). The electric utility sponsors the transaction, sells the intangible asset to the SPE and, at least initially, services the bonds by billing the customer, collecting the charge and remitting the funds to the trustee. The trustee pays the stated interest and principal to the bondholder. The Commission issues the financing order and checks proposed true-up adjustments to the nuclear asset-recovery charge for mathematical correctness. The electric retail customer pays the charge and bears all of the financial burden associated with the debt, once the bonds are sold.

This is different from normal utility debt, where the utility company relies on its balance sheet or credit to issue debt. In the case of the nuclear asset-recovery bonds, once the bonds are sold, the utility has no more "skin in the game," so to speak. This makes it all the more important for the Commission to take a strong role upfront in protecting the interests of ratepayers, with whom the financial obligation remains.

Q. What have utility securitization bonds been used for up until now?

A. Investor owned utilities, together with state legislatures and public utilities, have used such bonds to fund, among other things, stranded costs from utility deregulation, environmental control costs and, in the case of Florida, in 2006, and most recently, New Orleans in 2015, storm recovery costs.

Q. Earlier you referred to a "Best Practices" approach to utility securitization. Please. Can you please describe how these Best Practices were identified and what they are.

A. Yes. Based on experience gained from past transactions and my professional experience and judgment, I have examined the pricings of previous investor-owned utility securitizations. This included the relevant regulatory commission financing order, offering documents, and any post-pricing filings with the regulatory commission about the financing and relevant market information associated with each financing.

From this analysis my colleagues and I identified this set of specific steps that, in my professional judgment, a commission can take to ensure that the interests of ratepayers are protected through a cost-effective and efficient issuance of utility securitization bonds. These steps represent a set of what I consider to be "Best Practices." Most represent "Best Practices" previously have been put in place by certain state commissions and other top quality issuers including the Florida Public Service Commission. The West Virginia Public Service Commission in financing orders issued in 2007 and 2009 identified many of these in their financing order.

These steps are designed to be practical ways to use the expertise of professionals, as well as to apply market principles such as transparency and competition, to achieve a least cost transaction in a timely and efficient manner. These steps are summarized below. The primary themes of the "Best Practices" are 1) Active Representation in the process by the Commission and those with a fiduciary relationship i.e., acting in the best interests of the ratepayers; 2) a

clear decision making standard regarding all items in the transaction to achieve the lowest overall cost of funds and the best value for any services; and 3) written representations as to the actions taken by participants in the transaction.

The Commission, directly or through its advisors, in conjunction with the proposed Bond Team as adapted through submitted testimony, should:

1) Have an independent expert financial advisor to assist staff and the Commission in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bond transaction. The Commission should utilize experienced experts and independent financial advisors free of conflicts of interests with either DEF, DEF's underwriters and bankers who have a financial interest in pursuing other business with DEF, or DEF's parent or investors;

2) Have access to independent legal counsel either directly or through the independent financial advisor;

3) With this independent financial advisor and legal counsel as well as others, participate, up front, in the selection of all other transaction participants to be paid from bond proceeds or ratepayer funds, including underwriters, counsel, and other transaction participants. The financing order should define the responsibilities of each participant to the extent that each is to be paid from proceeds of nuclear asset-recovery bonds or from nuclear asset-recovery charges. The Commission, through its staff and independent financial advisor, should play a key role and be an equal partner with DEF in structuring, marketing and pricing the nuclear asset-recovery bonds. The selection of the transaction's bond counsel as well as counsel for the underwriters should be done in a joint and collaborative manner since DEF proposes that such counsel will be paid from the bond proceeds;

4) Carefully review and participate in negotiating all transaction documents and contracts that could affect current and future ratepayer costs to ensure accuracy and compliance with all laws, rules, and regulations, as well as to maximize ratepayer savings;

5) Ensure that all statutory and financing order provisions that benefit ratepayers are strictly enforced in implementing the transaction and negotiating other transaction documents, including the Indenture, the Servicing Agreement, the Sale Agreement, the Administration Agreement For example, this would include providing that the Commission is to have the authority to enforce the provisions of the financing order and those transaction documents for the benefit of ratepayers;

6) Review and approve procedures to ensure that the financing order and transaction documents provide self-executing mechanisms for the transfer or crediting to ratepayers of amounts needed to avoid windfall gains to the utility;

7) Ensure that the nuclear asset-recovery bonds are offered to the broadest market reasonably possible domestically and internationally to gain the lowest interest rates for the benefit of ratepayers through increased competition among and between underwriters and investors;

8) Ensure the transparency and accountability in distribution of the nuclear asset-recovery bonds, both in the initial pricing and in the secondary market, to support the integrity of the process and ensure competition;

Decision Making Standard:

9) Direct the Commission staff and its independent outside experts, such as its financial advisor, to participate fully, in advance, in all aspects of structuring, marketing and pricing the nuclear asset-recovery bonds and instruct them to

challenge any decision they believe might not result in the lowest overall cost of funds to ratepayers. This should include:

a) Establishing and clearly communicating goals and objectives in cooperation with DEF and potential underwriters throughout the process;

b) Reviewing, analyzing, and proposing revisions to all documentation to better protect ratepayers, including specific certifications, representations, indemnities, and warranties to ensure that they are accurate, appropriate and comply with applicable laws, rules and regulations;

c) Evaluating and approving offering methods such as competitive bid, negotiated sale or combinations thereof, to determine the most effective offering method with the least risk;

d) Evaluating the performance of underwriters of prior utility securitization bond offerings; including in any offering or bidding syndicate at least one underwriter without a prior relationship with DEF; and tying compensation in any negotiated underwriting to performance;

e) If a negotiated underwriting process is selected, requiring underwriters to develop a written marketing plan and implement robust marketing efforts, emphasizing the need to broaden distribution and to attract both traditional and non-traditional investors in utility securitizations;

f) Establishing a regularly scheduled (such as weekly) conference call between senior representatives of DEF, other transaction participants, Commission staff, and the Commission's independent financial advisor to update the Commission on relevant information;

g) Requiring DEF and potential underwriters or advisors to carefully monitor market conditions to minimize foreseeable pricing risks, such as year-end

pressures, economic announcements, or other outside events, and to document their marketing efforts and pricing recommendations;

Written Certifications:

10) Require accountable, written certifications from the underwriter, DEF, and the Commission's financial advisor as to actions taken to achieve the lowest overall cost of funds at the time of pricing under then-current market conditions, including their opinion that the lowest overall cost of funds under then-current market conditions was in fact achieved.

Q. Can you demonstrate how the use of these "Best Practices" in other transactions has benefited utility ratepayers in the past?

A. Yes. Utility securitizations generally are priced by reference to an independent interest rate benchmark of either U.S. Treasuries or U.S. interest rate swaps (swap). For convenience, our analyses use pricings where there are relative comparable swaps, as most utility securitization bonds are priced off of this interest rate benchmark. The swap rate is the fixed rate that an investor would be willing to exchange contractually for a variable rate of interest with the same given maturity. Exhibit Nos. _____ (PS-3) and _____ (PS-4), attached to my testimony, show how in the early years of utility securitizations, deals were priced substantially over the benchmark swap rate, not a good thing for ratepayers. This spread between the benchmark swap rate and the bond yield is called the "credit spread." The credit spread is the amount of interest or yield above a benchmark that compensates investors for all the risk factors those investors consider relevant to their investment in the bonds. This is the amount that is negotiated with underwriters and investors.

Exhibit Nos. _____ (PS-3) and _____ (PS-4) quantify credit spread in basis points (a basis point is one one-hundredth of one percent). At that time, since this was a relatively new type of security offering and credit, Exhibits Nos. _____ (PS-3) and _____ (PS-4) show that the

market was not particularly "efficient." "Market Efficiency" in the capital markets is the degree to which security prices reflect accurately all publicly available information about the security. If two securities with the same inherent value and the same disclosure requirements (or lack thereof) trade at significantly different prices or yields, that means the market is not efficient. This could be due to lack of price transparency (i.e. one investor cannot easily find out what other investors are paying for the same, or similar securities), or it could be due to poor trade execution (e.g., the broker just wanted to get the deal done and didn't care how much his client had to pay; and the client just trusted the broker without having independent knowledge of the market). Other factors could be involved as well.

Q. Have two utility securitization bonds issued at approximately the same time been priced substantially differently, despite both having the same AAA rating and similar investor protections?

A. Yes. In 2001 two different AAA-rated utility securitizations came to market within two weeks of each other: (i) Reliant Energy, with an independent financial advisor to the Public Utility Commission of Texas (PUCT), and with Merrill Lynch serving as lead underwriter; and (ii) Consumers Power, without an active, independent financial advisor to the Michigan Public Service Commission and no apparent commission post-financing order involvement, and with Morgan Stanley as lead underwriter. Both securitizations had long tranches (an independent series of bond offerings within a total issuance amount) of approximately 10 years weighted average life (WAL). The 10-year tranche of the Reliant Energy transaction priced at +37 basis points (bps) over the benchmark, while the 10-year tranche of the Consumers Energy transaction priced at +55 bps over the same benchmark. The former deal was priced much better for the benefit of ratepayers than was the latter deal. See Exhibit No. _____ (PS-5), attached to my testimony, an) excerpt from the independent advisor's report to the PUCT. Three months after the Consumers Power transaction priced at

+55, CPL Transition Funding priced its 10-year tranche at just +24 bps over swaps. This persistent up and down pricing is an indication that all deals were not being marketed and priced equally effectively.

Merrill Lynch delivered a "lowest cost" certification in connection with securitized utility bonds issued by Reliant Energy to the Commission's independent financial advisor at the time. My records do not show Morgan Stanley or any other participant in the Consumers Power transaction having delivered a "lowest cost" certification.

Q. Does your review of transaction documents, regulatory filings, correspondence and other credible information collected by Saber with respect to that Consumers Power securitized utility bond transaction in Michigan indicate whether Merrill Lynch had a view on the pricing of that Consumers Power transaction?

A. Yes. Attached as Exhibit _____ (PS-5a) is an email dated November 1, 2001 from Scott Soltas of Merrill Lynch who was the lead underwriter and head of the pricing syndicate on the Reliant utility securitization to the Commission's independent financial advisor, Saber Partners LLC Chief Executive Officer Joseph Fichera, the Chief Executive Officer. That email states in part:

> I thought you might appreciate the final print on Consumers Energy. Judging by the timeline of initial price guidance, restructuring, and final pricing I'd have to assume that either (1) Consumers was downgraded during the marketing process, (2) the RRB market widened out by 15 bps, or (3) MSDW [Morgan Stanley Dean Witter] does not have the marketing and distribution of the ML/GS/BS [Merrill Lynch / Goldman Sachs / Bear Stearns] team, nor do they have Saber Partners riding roughshod over the process. I'm pretty sure that the correct answer is (3)....

I feel even more comfortable signing that letter that says the ratepayers got the best deal available in the market at that point in time now!

Q. Please describe the development of the market for securitized utility bonds.

A. As the identified transactions employing "Best Practices" came to market, Exhibit Nos. _____ (PS-3) and _____ (PS-4) show credit spreads to the benchmark swap rates began to decline dramatically. This is called tightening and is a good thing for ratepayers. The results of these transactions, in turn, caused other subsequent investor-owned utility securitizations to be priced more aggressively, resulting in a much more efficient market i.e., closer to the inherent value of the security in relation to other high quality credits. This occurred as other regulatory commissions and their independent financial advisors began to adopt some, but generally not all, of the "Best Practices" described herein. It was not until the financial crisis began in 2008 that investor-owned, utility securitization credit spreads to benchmark swap rates widened dramatically. This is <u>not</u> a good thing for ratepayers. From available public information, most underwriters and issuers of securitized utility bonds appeared to stop making concerted efforts to reduce this effect.

Q. Can you tell us the approximate value of 1 basis point in pricing the proposed nuclear asset-recovery bonds?

A. Yes. Assuming a principal amount of $1,312 million that is assumed in DEF's petition, then a single basis point (one one hundredth of a percent) of additional interest equates to $131,200 of additional interest in revenue requirements each year.

Mr. Collins' testimony assumes DEF's nuclear asset-recovery bonds will have a scheduled final maturity of 17 years and 10 months, and a scheduled weighted average life of 10.1 years. $131,200 of additional interest cost each year would amount to $1,325,120 over a 10.1 year weighted average life of the bonds. However, as the example above indicated as well as examples to be discussed below will show, the differences between pricings of AAA-rated

utility securitizations can vary dramatically in the tens of basis points and many millions of dollars over long periods of time. For tranches with longer amortization schedules, this additional cost becomes even more significant. So while a single basis point of interest sounds insignificant, it actually is very important in getting the bonds' pricing accomplished well.

Q. Do you have evidence to show that subsequent to the 2008 financial crisis, issuers either have or have not generally adopted these "Best Practices" as regards to structuring, marketing and pricing securitized utility bonds relative to other high quality securities?

A. Yes. Exhibit No. ____ (PS-6) attached to my testimony shows there is still a wide variation in pricing spreads across the entire range of maturities. In this exhibit, I have compared the pricing of utility securitizations issued between 2009 and 2014 to the pricing for AAA-rated credit card securitizations. Because credit card receivables-backed ABS are usually issued in tranches with only 2-, 3-, 5-, 7- and 10-year WALs, the comparison is made to interpolated or extrapolated spreads to credit card receivables-backed ABS to compare comparable maturities. This is a standard industry practice. AAA rated credit card securitizations generally are considered the top quality credit in the ABS market into which DEF proposes to offer the nuclear asset-recovery bonds. Among other things, this chart shows that on average (as shown by the regression line) transactions in the 2012-2014 period priced approximately 13 basis points above credit card ABS securities. However, many priced with spreads substantially above 13 bps.

Q. Why did you choose credit card receivable ABS transactions to compare with investor-owned utility securitizations?

A. While I believe utility securitizations are not ABS and should appeal to a broader corporate securities fixed-income security investor base, I looked at the market into which

DEF proposes to sell the bonds. I believe there are also better comparables, like highly rated corporate bonds as well as U.S. Agency securities, as described below. However, AAA-rated credit card ABS debt and utility securitization debt should price fairly close together according to independent research produced by Citigroup and Wells Fargo and discussed further below. The relationship between two securities is generally referred in the industry as the "relative value." If two bonds of equal risk and structure (e.g. maturity, prepayment risk and extension risk) are priced differently in the market, the bond with the higher yield is said to have greater relative value.

As an example of the variation in relative value, the Louisiana Utilities/EGSL deal, 10.40 year WAL tranche, which was issued on July 15, 2010, priced 49 basis points *above* credit card receivables-backed ABS, while the Entergy Texas utility securitization deal, 10.86 year WAL tranche, which was issued on October 29, 2009, priced 19 basis points *below* credit card receivables-backed ABS.

Even accounting for the difference in time between offerings, such a wide variation in spreads can be due to a number a factors, including how broadly the bonds are marketed, how much pricing authority is shared with the Commission and its independent financial advisor, how well the bonds are marketed by emphasizing their relative value, as well as how the deal is structured to take advantage of specific market demand. It is difficult to know the exact cause in the above comparison, but it is not difficult to see the result. The Entergy Texas deal seemed to be the superior of the two deals from the viewpoint of ratepayers.

Q. Why did you not examine the 2015 New Orleans transaction?

A. The 2015 New Orleans transaction received a split credit rating of Aa1 by Moody's and AAA by Standard & Poor's (S&P). Therefore, the 2015 New Orleans transaction would be expected to have a higher credit spread than the other transactions as a result of a lower credit rating, indicating more inherent risk. Only AAA/Aaa-rated investor-owned-utility

securitization transactions were analyzed. (S&P uses all capital letters, while Moody's uses a combination.)

Q. Is there any other independent corroborating evidence to support an analysis that utility securitization bonds should trade close to AAA-rated credit card ABS debt?

A. Wells Fargo Securities issued a research report on July 17, 2013 discussing the relative value of Rate Reduction Bonds (RRB), which is another industry name for utility securitization bonds. A copy of this research report is attached as Exhibit No. ____ (PS-6a). In this research report, Wells Fargo Securities said, "RRB spreads that trade at +4 bps or more to [above] benchmark credit card ABS (asset backed securities) represent better relative value opportunities, in our opinion." If that is true, it is hard to understand how those responsible for pricing the CenterPoint utility securitization of January, 2012 could have priced the 10.82 year WAL tranche (A-3) some 42 bps above AAA-rated credit cards ABS (see Exhibit No. ____ (PS-7), unless it was due to poor execution. As can be seen from Exhibit No. ____ (PS-7), the average spread to credit cards ABS (as judged by the regression line for all transactions in the 2012-2014 period) for a bond of the same WAL was about 11 bps above credit cards ABS. So CenterPoint priced some 31 bps (42 minus 11) above the average. On the A-3 tranche principal amount of $681,262,000, that is an additional interest expense of $2,111,912 per year of WAL in revenue requirements. That times a WAL of 10.82 years amounts to over $22 million of excess cost for the ratepayer.

Q. Have other underwriters made a similar comparison to credit card ABS using similar data?

A. Yes. Citigroup has done it at least twice. The first time was in an analysis presented to the Texas Public Utility Commission's independent financial advisor in 2003 concerning the pricing of three Texas investor-owned utility securitizations. A copy of that Citigroup study is attached to Mr. Schoenblum's testimony as Exhibit No. ____ (HS-1). The Citigroup

2003 study estimated that the three Texas transactions completed by the time of the study saved ratepayers $7.6 million in net present value interest savings based on spreads to credit card ABS, (excluding utility securitization tranches over 10 years where there were no comparable credit card transactions) that Citigroup independently chose to review. When compared with other investor-owned utility securitizations based on spreads to the swaps benchmark, including all tranches, the amount of savings Citigroup estimated in its study in regard to the three Texas securitizations was much higher than for the non-Texas offerings, or approximately $18 million in net present value ($23 million undiscounted) revenue requirements over the life of the transactions.

The second time was in connection with an offering for CenterPoint Energy Houston Electric (CEHE) in 2008. Using the same methodology, Citigroup's 2008 report (see Exhibit No. ____ (PS-9) entitled, "CenterPoint Energy Houston Electric (CEHE) Securitization," said:

> On Jan. 29, 2008, CEHE priced one of the most successful asset-backed securities (ABS) offering in many months, attracting both traditional asset-backed buyers and corporate "crossover" investors [investors who normally buy only corporate bonds but can also by ABS].... We estimate that each tranche of the CEHE III offering priced approximately 15-25 bps inside of [i.e., less than] like-maturity credit card securities.

That report even cited as corroborating evidence a Citigroup January 24, 2008 fixed-income research report, circling the spreads for comparable securities, as shown in Exhibit No. ____ (PS-9), page 3 of 7.

Indeed, the 2008 offering sold with a 5-year tranche at +64 bps over swaps and the 10.5-year tranche at +94 bps over swaps (see Exhibit No. ____ (PS-4). The 5-year spread (+64 bps) was considerably narrower on a "relative value" basis than both the 78 bps credit card ABS spread and the 83 bps "stranded asset" spread indicated by Citigroup Fixed Income Research.

("Stranded asset" is Citigroup's terminology for utility securitization debt.) Likewise, the 10-year spread (+94 bps) was significantly narrower than both the 110 bps credit card spread and the 115 bps stranded asset spread quoted by Citigroup. I used a similar credit card ABS indicative credit spread methodology as Citigroup did in preparing the analyses shown in Exhibit Nos. ____ (PS-6) and ____ (PS-7).

Q. Do you look at other comparable securities besides credit cards when pricing utility securitization bonds?

A. Yes. We generally look at AAA-rated U.S. agency bonds such as the Tennessee Valley Authority, Fannie Mae (the Federal National Mortgage Association) and Freddie Mac (the Federal Home Loan Mortgage Association), and also AAA-rated corporate bonds of similar maturity and structure (e.g. non-callable prior to their maturity). Exhibit No. ____ (PS-10) shows United States Agency and AAA-rated corporate comparable securities that I identified to judge the relative value of ONCOR/TXU securitization 10.43 year WAL tranche that priced May 28, 2004. Comparables could also include AAA-rated corporate bonds such as for ExxonMobil, Microsoft and, to a lesser extent, investor-owned utility first mortgage or unsecured long-term debt. The reason the latter is useful but less valuable is the fact that, while utilities are the sponsors of utility securitization debt, there are no AAA-rated investor-owned utility bonds. The highest rated investor-owned utilities (i.e. not government sponsored like Tennessee Valley Authority, Bonneville Power Authority or municipal utilities), including DEF, are A-rated by Standard and Poor's. The reason it is useful is that, if we see AAA-rated utility securitization bonds that have credit spreads closer to much lower rated investor-owned utility bonds, it could be evidence of a severe mispricing and bad marketing.

Q. Has such a case ever happened?

A. Yes. In 2012, the CenterPoint Energy securitization bonds longest tranche (10.82-year with a 3.0282 percent coupon) was priced similar to a Baa-rated utility bond with a 2022, 10-

year maturity that came to market around the same time (Virginia Electric Power Company; coupon rate 2.95 percent; maturity January 15, 2022).

Q. Is there a risk of using the wrong benchmark in pricing or looking at relative value?

A. Yes. Some types of AAA-rated ABS securities are viewed by the market as more complex and higher risk than other AAA-rated securities despite their rating and consequently it would be disadvantageous to use in marketing or pricing utility securitization bonds. For example, securitized auto loans, auto floor lease loans ABS or collateralized mortgage-backed securities (CMBS) carry a materially higher yield and spread to the swap benchmark compared to credit cards ABS. See Exhibit No. ____ (PS-11) for a report by Saber Partners that analyzed the impact this may have had on the Ohio Phase-In Recovery issue of July 23, 2013. The table shows that in a matter of 12 days prior to the Ohio pricing on July 23, 2013, the credit spread to 3-year auto loan ABS increased by 18 bps while the credit spread to 3-year credit card ABS increased by just 12 bps. Thus, if the issuer was benchmarking off of the auto loan ABS rather than the credit card ABS, that erroneous benchmark alone cost 6 bps.

Q. Can you demonstrate how "Best Practices" influence cost to the ratepayer in terms of upfront issuance costs and ongoing financing costs?

A. Yes. As is the case with pricing, there is a large disparity among issuers with respect to issuance costs in utility securitizations. In light of the direct testimony of witness Bryan Buckler, the most glaring example would be servicer set-up fees. In his Exhibit No. ___ (BB-1), Mr. Buckler gives a range of set-up fees from $1,900,000 to $2,900,000. DEF does not have a financial incentive for charging the lowest possible fee for set-up as long as DEF is doing the set-up, and consequently some outside oversight is called for. In my Exhibit No. ____ (PS-12), I show the servicer set-up fees for over two dozen utility securitization transactions for which estimated costs were available at the time of issuance in the

transaction's Issuance Advice Letter (IAL) or for which actual costs were disclosed in a subsequent regulatory filing. In no case have the costs been close to those estimated by DEF. For example, in the 2007 FPL storm recovery bond securitization, actual incremental set-up costs were reported to the Commission as only $401,382. Even in the case of the 2013 First Energy securitization, where three separate operating companies were imposing and collecting charges independently, the combined set-up costs were estimated in the IAL to be just $300,000.

Q. Are there other upfront financing costs that are of particular importance?

A. Yes. Underwriting expense is one of the largest upfront financing costs. Witness Buckler gives a range of 40 to 50 basis points as typical of recent deals (page 20 of Buckler testimony). In his Exhibit No. ____ (BB-1), Mr. Buckler gives a dollar range of $4.8 to $6.6 million for upfront financing costs.

My Exhibit No. ____ (PS-13) shows underwriting spreads for utility securitizations between 2001 and 2014. For example, in deals where I have been directly involved, I have observed performance-based fees that were designed to provide incentives to each of the underwriters to market bonds aggressively to their customers and to reach out to a broad base of potential investors, including investors who have not previously purchased this type of security (see Exhibit No. ____ (PS-14), article from *Investment Dealers Digest*). To my knowledge, most other transactions have largely employed a "fixed economics" approach where each underwriter is paid a specific amount regardless of its efforts or the outcome of the pricing of the transaction for the benefit of ratepayers as reflected in the benchmark spreads for each tranche. These "fixed economics" transactions may have a small 5-10 percent incentive component, but not enough, in my opinion, to significantly affect the behavior of the underwriters for better pricing. Based on the data I have described above, predominantly performance-based underwriter compensation tends to provide better execution, while at the

same time keeping fees, on average, below what other deals have incurred. This experience strongly suggests that the ratepayer would benefit in this transaction if the Commission, acting through its designated experts and advisors, had at least an equal say with DEF regarding (i) the solicitation and selection of underwriters in a negotiated transaction, even if selected by means of an RFP, as DEF has suggested; and (ii) how selected underwriters will be compensated. This is consistent with Best Practice #3, and is an established precedent in other deals.

Q. To the extent compensation for services of transaction participants will be paid from bond proceeds or ratepayer funds, your Best Practice #3 also calls for the Commission's staff and the Commission's financial advisor to participate in the selection of those transaction participants, including legal counsel for the sponsoring utility and legal counsel for the underwriters. Is there market precedent for this approach?

A. Yes, it is part of the collaborative and cooperative approach with the utility and the Commission to get the best value for ratepayers. For example, Ordering Paragraph 19 of the West Virginia Public Service Commission's Financing Order dated April 7, 2006, states:

> The Financial Advisor shall be provided timely information that is necessary to fulfill its obligation to the Commission, and shall have equal rights with the Applicants to approve or disapprove the proposed pricing, marketing and structuring of the Certificates and Environmental Control Bonds, including (without limitation) the selection of underwriter(s), counsel, trustee(s) and other parties necessary to the transaction, and to review and approve the terms of all transaction documents.

Q. Are there similar risks to the ratepayers associated with ongoing financing costs?

A. Yes, there are. Servicing fees (the amount paid to the utility to bill, charge, collect and remit the nuclear asset recovery charge) provide a good example. DEF has proposed annual

servicing fees of .05 percent of the initial principal amount of the bonds (or approximately $650,000/year) for as long as any bonds remain outstanding and as long as DEF remains the servicer or up to 20 years. That is the industry standard, based primarily on needs to satisfy bankruptcy counsel, although there are a few deals where the annual servicing fee is less and a number of deals where it is more. However, in deals in which I have been involved as advisor, any servicer fees in excess of actual incremental costs have explicitly been rebated or credited to ratepayers. This is significant. Since DEF is already billing the ratepayers, the incremental cost to add the nuclear asset-recovery charge to the bill should be next to nothing. For example, Finding of Fact 114(b) in the Commission's Financing Order issued to FPL in connection with its storm recovery bonds states:

> We find that the activities associated with the annual fee for ongoing services – billing and collecting storm-recovery charges, remitting funds to the SPE, and developing storm-recovery charges – are tightly bound with operations already performed by FPL in the normal course of business. FPL has not justified that the annual fee is necessary to cover any incremental costs to be incurred by FPL in performing ongoing services as servicer. Thus, we find that FPL shall apply to the Reserve [essentially credit back to ratepayers] all amounts it will receive under the Servicing Agreement for ongoing services.

Similarly, in addressing annual fees FPL would receive for providing administration services to its SPE subsidiary issuer, Finding of Fact 116 of the FPL Financing Order states:

> FPL's proposed form of Administration Agreement provides for a $125,000 annual fee for performing the services required by the Administration Agreement. We find that FPL has not demonstrated that this annual fee is necessary to cover any incremental costs to be incurred by FPL in performing services as administrator. Thus, we find that FPL shall apply to the Reserve

[essentially credit back to ratepayers] all amounts it will receive under the Administration Agreement for its services.

In my opinion, any costs in excess of incremental costs to DEF, whether as servicer, for administration, to provide system set-up services or in any other role should be credited back to ratepayers. Besides being the appropriate policy, there is ample precedent for this from the earliest securitizations in 1997 to present and it is consistent with our Best Practice #6, to ensure that ratepayers get the full benefit of all realized savings and for the sponsoring utility, the principal beneficiary of the proceeds of the transaction, to demonstrate actual costs. A list of previous utility securitization transactions that have required fees in excess of incremental costs is attached as Exhibit ____ (PS-12).

Q. What is your opinion regarding how frequently collections by the servicer should be remitted to the bond trustee?

A. On page 11, lines 22-23 of his testimony, Mr. Covington states that, "Provisions within the servicing agreement may also permit DEF to remit Nuclear Asset-Recovery Charges monthly, instead of daily." I believe the servicer should be required to remit funds collected from the ratepayers on a daily basis. This has been required in the servicing agreements of other transactions. In this way, it is more likely that the ratepayers will benefit from any earnings on cash held prior to its use in servicing the bonds. If DEF is permitted to remit its collection of nuclear asset-recovery charges monthly, then DEF should also be required to remit to the trustee DEF's actual earnings on those collections pending monthly remittance. But daily remittances would virtually eliminate the need for DEF to calculate the monthly earnings and avoid this administrative task and expense.

Q. Based on the data you have presented and your experience with utility securitizations, do you believe a Florida nuclear asset-recovery bond issue needs robust oversight by the Commission?

A. Yes, I do. I believe there are too many potential conflicts of interest between DEF as servicer, as administrator, as owner of the SPE, as provider of system set-up services and as the owner of the CR3 assets. It is important to have participants in the transaction that have a fiduciary relationship with the Commission and ratepayers. By this I mean someone who is acting in the best interests the ratepayers. I also believe there are too many conflicts of interest between Morgan Stanley as advisor to DEF and potentially an underwriter in this bond issuance, especially given the potential for inefficiencies and lack of transparency in the market for utility securitization debt. There is precedent in prior investor-owned utility securitizations for avoiding such conflicts of interest. For example, in May, 2008, the Louisiana State Bond Commission selected an underwriting team for a planned $1 billion bond issue by the Louisiana Public Facilities Authority on behalf of Entergy Inc. The approval of the team, which included JP Morgan, carried the stipulation that JP Morgan, which had served as Entergy's financial advisor in the structuring the deal, must not serve as a financial advisor to Entergy for the next 10 years. An article reporting on this decision of the Louisiana Public Facilities Authority is attached as Exhibit No. ____ (PS-15a).

Similar concerns arise in connection with the offering of municipal securities, where individuals or firms might have interests that do not align completely with those who ultimately will be required to bear the economic burden of repaying the municipal securities. The Dodd-Frank Act, which was passed by Congress in 2010 ,added Section 15B(c)(1) to the Securities Exchange Act of 1934 (15 U.S.C. 78o-4(c)(1)):

> A municipal advisor and any person associated with such municipal advisor shall be deemed to have a **fiduciary duty** to any municipal entity for whom

such municipal advisor acts as a municipal advisor, and no municipal advisor may engage in any act, practice, or course of business which is not consistent with a municipal advisor's **fiduciary duty** or that is in contravention of any rule of the [Municipal Securities Rulemaking] Board.

A specific rule, Municipal Securities Rulemaking Board (MSRB) Rule G-23, applies in the offering of municipal securities. While nuclear asset-recovery bonds are not municipal securities, it is relevant to note the public policy issues and objectives articulated in explaining the need for the amended Rule G-23 regarding the sale of securities affecting taxpayers who are similar to ratepayers in this transaction.

Q. Please explain MSRB Rule G-23 as it relates to the types of potential conflicts of interest that may exist in this financing.

A. Rule G-23 specifically addresses the conflict of interest that can exist when a financial advisor also serves as an underwriter in a bond sale. While the rule has existed since 1977, it was materially strengthened as a result of the Dodd-Frank Act. The revised rule, which took effect in November 2011, prevents a broker-dealer that serves as a financial advisor to a municipal issuer from switching to an underwriting role for a specific transaction. Prior to the amendment's approval, in her remarks at the Investment Company Institute 2010 General Membership Meeting on May 7, 2010, Mary Schapiro, Chairman of the SEC summarized the need for the rule change as follows: "Financial advisers should be prohibited from resigning as financial advisor to an issuer, and then underwriting that issuer's bonds, as they are currently allowed to do under MSRB rule G-23. Right now, a financial professional advising a municipality can guide the municipality towards securities tailored to his firm's advantage, then resign and act as underwriter. This is a classic example of conflict of interest." (Remarks by Mary Schapiro, Chairman of the Securities and Exchange Commission at the Investment Company Institute 2010 General Membership Meeting, May 7, 2010.)

Q. Do you believe that the Bond Team concept, as described by Mr. Buckler in his testimony, provides for that robust oversight by the Commission through its advisor?

A. To a large extent, yes. However, in certain respects, I believe the Bond Team approach described by witness Buckler does not provide sufficient meaningful participation for the Commission in the structuring, marketing and pricing of the proposed nuclear asset-recovery bonds. In addition, certain aspects of DEF's proposal may prove too unwieldy. If the Commission, acting through its staff, experts and advisor, disagrees with DEF's proposed structuring, marketing or pricing, there might not be time to file an appeal with notice to the designated Commissioner and/or the whole Commission before the market opportunity slips away or causes confusion and uncertainty among investors. For example, during pricing, conflicting opinions generally would need to be resolved within minutes. In prior transactions in other states, the financing orders have made clear that the commission, acting through its financial advisor, had equal rights with the utility to approve or disapprove the proposed pricing, marketing and structuring of the bonds before the decision is made. See my (Examples of such provisions in prior financing orders are attached as Exhibit No. ___ (PS-16). This is different from DEF's proposed financing order. For example, proposed Finding of Fact 38 states: "...the bonds should be structured by DEF, in consultation with the other members of the bond team..." Given that Saber has advised state regulatory commissions on 12 utility securitizations over the past 15 years (of which the Commission has overseen one), and DEF has not been involved in any utility securitizations, it seems the Commission, acting through its staff, experts and advisors, should at least have equal say with DEF in all matters related to structuring, marketing and pricing the proposed nuclear asset-recovery bonds. This is consistent with #9 of the Best Practices that I have described earlier and has resulted in a collaborative and efficient process, as demonstrated by the pricing results also noted above.

Q. Do you agree with DEF witness Collins' description of the pricing process that will take place in order to sell the proposed nuclear asset-recovery bonds?

A. In general, yes, with one exception as discussed by witnesses Brian Maher and Hyman Schoenblum concerning the absence of a fiduciary relationship between the underwriter and the issuer. Mr. Collins states that "At a certain point in time when the book has sufficient interest from investors, the underwriters will stop taking orders....it will obviously only occur when the book has at least an equal amount of orders on the bonds as the principal amount of bonds (generally referred to as being fully-subscribed)." This assumes that the underwriters themselves will never actually "underwrite" any of the bonds. "Underwriting" means an investment bank puts its capital at risk and owns some portion of the bonds with a specific order until those bonds can be re-sold to investors. In fact, it is a customary and usual practice in the capital markets that at times underwriters will agree to underwrite one or more tranches that may be undersubscribed, thereby resulting in tighter (more favorable to the issuer) pricing than what witness Collins has described. In fact, 10 percent or more of a large transaction may be unsubscribed, meaning held by the underwriters, at the time a large deal is priced (see Exhibit No. ___ (PS-17). This is consistent with the idea that underwriters compensation is meant not only to compensate the investment bankers for the amount of work they do in selling the bonds, but also for any risk they assume if they have to hold some of the bonds in their trading inventory. If they are unwilling to assume any risk, then their compensation should reflect that.

Q. Do you believe there is still significant pricing inefficiency in the market for utility securitization bonds?

A. Yes, I do.

Q. In your opinion, what accounts for the continued pricing inefficiencies in the market for these types of bonds?

A. In recent years, the volume of securitized utility bond offerings has been significantly less than in earlier years. Exhibit No. ___ (PS-18) shows the principal amount issued by year. Furthermore, since most tranches of securitized utility bonds have WALs less than 10 years, most bonds issued in the early years (1997-2005) are no longer outstanding.

In addition, lack of market transparency is evident by the difficulty of finding secondary market trading data on Bloomberg or other commercial databases for these types of bonds. (Secondary trading occurs after the underwriters have sold the bonds to the public, and the public begins to trade the bonds.) Indeed, the Financial Industry Regulatory Association (FINRA), the corporate bond market's regulator, did not require secondary market price transparency for these types of bonds until 2011.

The lack of market efficiency can also be seen by the disparity that exists for extended periods between the stranded asset (utility securitization) yield spreads that are reported by major investment banks who are active in the market for such bonds (see my Exhibit No. ___ (PS-19). In January, 2012, Citigroup was reporting stranded asset spreads to swaps as high as +90 bps at the same time that JP Morgan was reporting lower spreads of +60 bps, a 30 bp difference. Later, beginning in August of 2012, and continuing for three months, this was reversed. Citigroup was reporting spreads of +40 bps, while JP Morgan quotes stayed at +60 bps, for a 20 bp difference. These examples all demonstrate a lack of efficiency.

Q. Do you keep track of all utility securitization transactions?

A. I do. Exhibit No. ___ (PS-20) shows a list of 64 distinct utility securitization transactions that have occurred since 1997. I maintain this list as part of Saber's database of documents and statistics from each of the 64 prior deals.

Q. Does your list agree with DEF witness Collins' Exhibit No. ___ (PC-2)?

A. No. In about a dozen cases, Mr. Collins has listed the "closing date" (when the bonds are issued to investors) in the column labeled "pricing date" (when the bond's interest rate is set). Generally those dates are about one to two weeks apart and therefore may be offered and sold in different market conditions. Also, our list does not include the tax-exempt portion of the Long Island Power Authority (LIPA) 2013 securitization transaction, since those bonds were priced and sold in the municipal market. Because the interest for bonds issued into that market is exempt from federal income taxes, the market for those LIPA bonds is different from the market for all other investor-owned utility transactions, as the tax advantage gives those LIPA bonds an advantage in pricing over bonds without federal tax-exempt interest. None of the nuclear asset-recovery bonds in this proceeding will be tax-exempt municipal securities that have such a different investor base.

Q. What is your opinion of the form of Issuance Advice Letter proposed by DEF?

A. While generally I think it is consistent with most such documents I have reviewed, I am not certain that the form of Attachment 7, "Estimated Savings," will assure adequate transparency for ratepayers to have confidence that the promised savings have in fact been realized. For example, it is not clear if the savings are to be shown as present value savings (the time value adjusted calculation of savings), or nominal savings, or both. If present value is used, it is not clear what discount rate (to adjust the cash flow for the difference in time when it is received) will be used.

Q. Do you have an opinion on whether savings should be shown as nominal or present value, and what discount rate to use, if a present value calculation is made according to general financial principles?

A. Yes. Present value is the only meaningful way to calculate ratepayer savings. According to general financial principles, present value calculations are (i) the accepted

method of financial analysis, (ii) the appropriate method to evaluate savings today, and (iii) the basis upon which financial decisions should be made. That was certainly the way it was done in all the years I worked in finance at FPL. The proper discount rate to use is somewhat more problematic. It should be a debt rate because this is a debt obligation. According to financial principles, it should be a proxy for the obligor's alternative cost of borrowing. In this case, that should be the ratepayers' alternative cost of debt, especially because this will be a direct obligation of ratepayers and not of the utility and its shareholders. Thus, while one could use DEF embedded cost of debt as a proxy, that is most likely much lower than the ratepayers' alternative cost of debt. At least it would be a better rate to use (that is to say, closer to the ratepayers' cost of debt) than the (probably lower) rate on the nuclear asset-recovery bonds.

Q. Can the choice of a present value discount rate affect anything other than the Issuance Advice Letter?

A. Yes. The higher the discount rate is above the bond rate, the more ratepayers are shown to benefit from extending the final maturity. If the discount rate is equal to the nuclear asset-recovery bond rate, there is no apparent present value benefit to a greater weighted average life. Consequently, the choice of discount rate might affect the decision regarding the best bond structure to use in order to maximize ratepayer benefits and make the correct structuring and pricing decisions according to generally accepted financial analysis principles.

Q. Do you agree with DEF's assumption that the maximum scheduled maturity would not likely be longer than 18 years?

A. No, I do not. DEF witness Collins stated that, "Because transactions with final maturities of fifteen years or longer have had at least a two year gap [between scheduled and final legal maturity], we are assuming that same two-year gap for the preliminary structure." However, I believe Mr. Collins was only looking at transactions from 2010 to present. While

it is not uncommon for the difference between the scheduled maturity and the final legal maturity to be two years, in the Monongahela Power and Potomac Edison transaction in 2009, the weighted average life of the deal was 19 years, and the final legal maturity was only one year beyond the scheduled maturity. That bond issue had no difficulty achieving AAA rating from the three major rating agencies. More recently, the AEP Texas Central transaction of March 7, 2012 has a final scheduled maturity of December 1, 2024, and a final legal maturity of March 1, 2026, for a gap of just 15 months.

In any event, the amount of time between scheduled and final maturity is subject to discussion with the rating agencies and is most affected by the frequency of the true-up of charges and the presence of the equity-funded Capital Subaccount, which are part of the structuring decisions I believe the Commission, acting through its experts and advisors, should be involved with after issuance of the financing order.

Q. **Can you explain what is meant by Best Practice #7, "Require that the nuclear asset-recovery bonds be offered to the broadest market reasonably possible to gain a lower interest rate..."?**

A. Yes. This is a basic business and economic principle. The larger the market for an enterprise's product (in this case, the bonds), the more product the enterprise will have an opportunity to sell at any given price. This often is referred to as "breadth of distribution."

For example, if only 80 percent of the proposed nuclear asset-recovery bonds could be sold in the U.S. domestic market at a certain yield, by expanding the pool of potential investors to include international investors in Europe or China who are large buyers of US dollar-denominated securities, it might be possible to sell 100 percent of the bonds without having to increase the yield on the bonds to attract additional domestic buyers. In large transactions (e.g. over $1 billion), such market expansion can be very beneficial. There have only been four investor-owned utility transactions greater than $1 billion since 2005, out of 36 in all

(excluding the municipal tax-exempt LIPA bonds). The DEF nuclear asset-recovery bonds will be the fifth. One of those four was the CenterPoint 2012 deal that appeared to price so poorly, a possible result of lack of a serious effort to expand the market for those securitized bonds.

Market expansion can occur in at least three ways. The first is by location. While the largest portion of the proposed nuclear asset-recovery bonds probably will be sold to United States investors, it is not uncommon to sell 25 percent or more of an issue of securitized utility bonds in Europe, and some amounts in Asia as well. The second is by investor type. Banks, pension funds, insurance companies and money managers can all be large purchasers of utility securitization bonds. The third is based upon the types of securities particular investors traditionally buy. For example, investors who typically purchase AAA-rated U.S. agency debt might be persuaded to buy AAA-rated utility securitization debt, even though they may not have done so in the past. The same is true of investors in AAA-rated traditional corporate debt. My Exhibit No. ___ (PS-17) shows the investor breakdown for a $1.8 billion utility securitization for which I was part of the regulator's advisor team.

Q. What can be done to ensure broad market distribution?

A. An active advisor can do several things to ensure broad market distribution. One is to insist that the underwriters communicate the deal to more than just one specialty area within their bond trading operation. If underwriters limit communications to just the ABS specialists and ignore the corporate bond buyers or the US agency traders, underwriters will be ignoring potential investors. The second thing that can be done is to work with the Bond Team to develop a roadshow presentation that addresses the questions and concerns of a broad market. The roadshow can be either electronic or physical or both. If it is physical, it must visit the cities where the biggest potential investors are concentrated, possibly including visits to major financial centers in Europe or elsewhere outside the U.S.

Q. On pages 40 and 41 of his testimony, Mr. Collins appears to say that DEF plans to treat the proposed nuclear asset-recovery bonds as "asset-backed securities." Do you believe that proposed approach is likely to result in the most effective marketing and pricing of the bonds?

A. No. Many large investors in debt securities are hesitant to purchase debt instruments which are categorized by the SEC or rating agencies as "asset-backed securities" (ABS). The charters of some large investors in debt securities specifically limit permitted investments in ABS. In the marketing of 12 prior utility securitization bond offerings, I have found it has been helpful to present the bonds as not ABS.

Q. Has it been possible to avoid treating prior securitized utility bonds as ABS for some or all of these purposes?

A. Yes. As described earlier in my testimony, securitized utility bonds are not treated as ABS for financial reporting purposes. See my Exhibit No. ____ (PS-1a). In addition, in 2007 and again in 2009, AAA-rated securitized utility bonds issued for the benefit of Monongahela Power Company and by Potomac Edison Company in West Virginia were offered to investors as non-ABS. The prospectuses from the 2009 West Virginia transactions include the following language: "The bonds are not asset-backed securities within the meaning of Regulation AB. However, we will file with the SEC required periodic reports related to the bonds consistent with the disclosure and reporting regime established in Regulation AB and will also post those periodic reports at our web address." I believe this was a material factor in achieving record low credit spreads over benchmark securities for those securitized utility bonds.

Q. Are there any other factors of importance in a well-executed utility securitization financing that are in the best interest of the ratepayer?

A. Yes. There is what I described in Best Practice #10, which is the requirement for accountable written certifications from the underwriter, DEF and the Commission's financial

advisor as to actions taken to achieve the lowest overall cost of funds at the time of pricing under then-current market conditions and certifying that, in their opinion, the lowest overall cost of funds under then-current market conditions was achieved. There are two important parts to this requirement. The first is the requirement to put into writing for all the world to see exactly what steps were taken to achieve the required results. This is a very strong incentive to not leave any important steps out or perform them only halfway. The second is to certify to having achieved the "lowest overall cost" objective. In my opinion, this is also a powerful incentive to resist doing just a "reasonable" job or anything other than the best. This certification was required of FPL in the 2006 Storm Recovery Financing Order and was provided in FPL's Issuance Advice Letter. In my estimation, that 2006 financing achieved a successful result for ratepayers, and I recommend requiring the same certifications in the financing order currently under consideration.

Q. Can you provide an example of a state regulatory commission adopting a "lowest cost" standard even though a "lowest cost" standard was not specifically mandated in the state securitization legislation?

A. Yes. The enabling legislation for securitized utility bonds in Ohio does not specify a "lowest cost" standard. (See 129th General Assembly, Amended Substitute House Bill Number 364.) Nevertheless, the Ohio Commission's financing order issued in PUC Ohio Case Nos. 12-1969-EL-ATS and 12-2999-EL-UNC states (at page 11): "The bond structuring and pricing review test is intended to ensure that the structuring and pricing of the PIR Bonds results in the lowest PIR Charges consistent with market conditions and the terms of the Financing Order." And, at page 18 it states: "Finally, Staff concludes that the proposed securitization financing appears to have been designed and structured to ensure that the PIR Bonds receive the highest bond rating possible, consistent with the objective of obtaining the lowest overall cost of financing through securitized PIR Bonds."

Q. Does your review of transaction documents, regulatory filings, correspondence and other credible information collected by Saber with respect to that Ohio securitized utility bond transaction indicate whether the sponsoring utility and its advisors agreed that the state regulatory commission had authority to impose a "lowest cost" standard, even though a "lowest cost" standard was not specifically mandated in the state securitization legislation?

A. Yes. From Saber Partners' files, I am attaching as Exhibit ___ (PS-19), a copy of an email string dated November 21 – 23, 2011. Saber Partners' CEO has advised me that this email string was forwarded to Saber Partners by one of the Ohio State Senators to whom the email was addressed. Several Ohio State legislators had followed up on a request from the Office of the Ohio Consumers Counsel that language be added to the Ohio securitization statute expressly adding a "Least Cost Standard." In this email string, the sponsoring utility argued that such language was not needed in the Ohio securitization statute. In support of that argument, the sponsoring utility's email forwarded an email dated November 22, 2011 from its outside legal counsel, Eric Tashman of Sidley Austin, with the following advice:

> I don't think it will be possible to argue (persuasively) that a lowest cost certification (in one form or another) in a financing order is either inappropriate or uncommon. I think the argument is merely about whether the lowest cost standard needs to be in the statute, or whether it is best to leave it to the discretion of the Commission to implement it in the financing order.

Q. Do you believe it is important that all required Commission approvals with respect to securitized utility bond approvals (save those relating to confirming arithmetic accuracy of calculations) be given before pricing?

A. No. So long as any post-pricing approvals are given within two or three business days after pricing, and so long as approvals are limited to confirming that requirements of the enabling

statute and financing order are met, I do not believe that post-pricing Commission approvals should adversely affect the price investors are willing to pay for the bonds.

Q. Do you believe there is a benefit to ratepayers from some Commission approvals being delayed until after pricing, giving the Commission and its financial advisor a reasonable opportunity to evaluate the actual marketing and pricing efforts and the results of those efforts?

A. Yes. I believe that the very existence of that post-pricing review and approval process is an important aspect of achieving the lowest overall costs for ratepayers.

Q. Do you believe it might be possible for the fees of a robust Commission advisor to outweigh the benefits?

A. Acknowledging that the Commissioner's financial advisor has a clear and uncompromised incentive to achieve the lowest possible cost of funds at the time of pricing in order to enhance its opportunity for future business, some utility sponsors and underwriters have argued that this goal is not constrained by any limits on time and expense, because these are at the cost of the utility or their ratepayers and do not show up in pricing spreads. If given any authority in the process, whether directly or indirectly, these sponsoring utilities and underwriters argue that the financial advisor can zealously pursue its goal without taking into account these other interests of the sponsoring utility. I believe such arguments are misplaced and not supported by any quantitative evidence and are simply arguments against oversight and against possible additional effort on the part of transaction participants necessary to maximize ratepayer savings. It is certainly true that an active financial advisor to the Commission is likely to cause the sponsoring utility and underwriters to spend more time and focused efforts on an effective structuring, marketing and pricing of securitized utility bonds than would a passive financial advisor. The proper question is whether those additional efforts reasonably can be expected to result in present value ratepayer savings in excess of the costs

of those incremental efforts. I believe my testimony shows that ratepayer savings from having robust regulatory oversight through an active financial advisor in prior securitized utility bond transactions have significantly exceeded the costs of the associated incremental efforts.

Q. Mr. Sutherland, can you very briefly summarize your testimony?

A. Yes. The market for securitized utility bonds continues to be inefficient, lacking in transparency with a great deal of variability in pricing as well as other terms and conditions that affect the amount of savings captured for the benefit of ratepayers. A robust and active independent financial advisor to the Commission acting on behalf of ratepayers is necessary in order to maximize ratepayer savings for any given transaction.

Q. Can you list your recommendations to the Commission?

A. Yes. In general, the Commission should modify the proposed financing order to allow for the "Best Practices" outlined in my testimony. Specifically, the financing order should provide that DEF and the Commission's independent financial advisor have equal authority with respect to major decisions involving structuring, marketing and pricing of the proposed nuclear asset-recovery bonds and selection of underwriters and other transaction participants. Further, the financing order should specify that DEF may not receive fees in excess of incremental costs incurred and not recovered by any other means. Finally, the financing order should require certifications of actions taken to achieve the lowest overall cost, similar to those required by the Commission in the 2006 FPL Storm Recovery financing.

Q. Does this conclude your testimony?

A. Yes it does.

SABER PARTNERS, LLC

Glossary of Finance Terms for Nuclear Asset-Recovery Bonds

Asset-backed security (ABS) - A debt security issued by a special purpose entity, the payment of which is backed by a fixed pool of physical assets (e.g., rail cars or airplanes) or a financial assets (e.g., a mortgage or the value of a portfolio of credit card receivables). Utility securitization bonds are not asset-backed securities but often have historically been treated as such to the detriment of ratepayers.

Bankruptcy-remote - A bankruptcy remote entity that is designed in such a way that (i) the likelihood of it going into bankruptcy is extremely small, and (ii) it would experience as little economic impact as possible in the event of a bankruptcy of other related legal entities.

Basis point (bp) - One one-hundredth of a percentage point, often referred to in writing as "bp" (or "bps" in the plural). Traders refer casually to this as "bps.".

Benchmark - When pricing a bond, the benchmark is a security with lots of price transparency that is agreed upon by all parties so that the yield on the new issue can be set relative to the yield on the benchmark. In that way, if yields in the market move after agreeing on the spread to benchmark but before final pricing, the parties do not have to renegotiate the final price/yield. A benchmark can also be a similar security used to determine relative value when talking to investors.

Callable/non-callable bonds/pre-payment risk - In many cases bonds are offered for sale with a "call provision." For example, a company may want the right to retire a given bond issuance in five years even though it carries a 25-year maturity. That bond issuance would be said to carry a five-year call option. Investors who worry their bonds might be called away from them in a relatively short period of time will not pay a high price for those bonds because they can't rely on earning the bonds' stated interest rate through maturity. Also known as "pre-payment risk. Non-callable bonds cannot be called away from the investor until the final maturity date. Nuclear Asset-Recovery Bonds typically are non-callable and therefore have no pre-payment risk.

Final *scheduled* maturity date - The date by which it is expected the final principal payment on a bond or on a group of substantially identical bonds will be made. If this date is missed, it is not an event of default.

Final *legal* maturity date - The date by which, if the principal is not fully paid, the bonds will be considered to be in default. Usually, the final legal maturity date is one to two years after the final scheduled maturity date. Somewhat confusing, but the scheduled versus legal final maturity is meant to account for potential uncertainty in receiving cash from assets supporting debt service.

Irrevocable financing order - A finance order issued by state regulators that cannot be changed or revoked at a later date as long as the securitization bonds are outstanding, and which (i) segregates a specific component of the retail rate or charge which is imposed through out the service territory, (ii) causes the right to receive this rate component to be treated as an interest in property that can be bought, sold or pledged, (iii) authorizes the utility to sell such property to an SPE, (iv)

authorizes the SPE to issue debt secured by such property, and (v) requires the utility which sold the property to use the proceeds of the sale for a specific purpose.

Maturity - The length of time the bond issuer has to repay specified amounts to the lender/investor. after which time, an event of default would occur and the investor would get creditor rights to sue for repayment.

Nominal Dollars or Nominal Savings - This type of measure reflects the current situation, not adjusted for the opportunity cost of funds over time. Nominal dollars treat all dollars the same whether received today or 10 years from today. See "present value" for the way to look at dollars over time.

Present value - The amount of cash today that is equivalent in value to a payment, or to a stream of payments, to be received in the future. To determine the present value, each future cash flow is multiplied by a present value factor. For example, if the opportunity cost of funds is 10%, the present value of $100 to be received in one year is $100 x [1/(1 + 0.10)] = $91. Opportunity cost means what a dollar today could earn over a specific period of time.

Regression Line - Regression takes a group of data points and tries to find a mathematical relationship between them. This relationship is typically in the form of a straight line (linear regression) that best approximates all the individual data points.

Relative value - The relationship between two securities' value in the market place. In pricing a new bond issue, for example, it is useful to compare the spread over swaps (see these definition below) of the proposed bond yield to the spread over swaps of a AAA-rated US agency bond. If the two securities were judged equal in risk with identical terms (not callable, same weighted average life, etc.), but one had a higher spread, it would be said to have greater relative value to the buyer.

Road show - A formal presentation to potential investors/ purchasers of a security, typically organized by underwriters with the involvement of the issuer and the financial advisor. A team sometimes travels around the U.S. to discuss the features of the security, resulting in the term "Road Show." Sometimes the team travels to foreign financial centers to make these presentations. In recent years, most Road Shows have been conducted using electronic media over the Internet, reducing or eliminating the need for travel though in person presentations are can be more effective.

Secondary market - The market in which stocks or bonds are traded after their initial issuance. The primary market is when the underwriters purchase the bonds from the issuer (i.e., the initial issuance mentioned above), and then sell the bonds into the market place. When a bond trades at a substantially higher price (lower yield) in the secondary market immediately following its issuance, this is an indication it was mispriced (priced too low) by the underwriters.

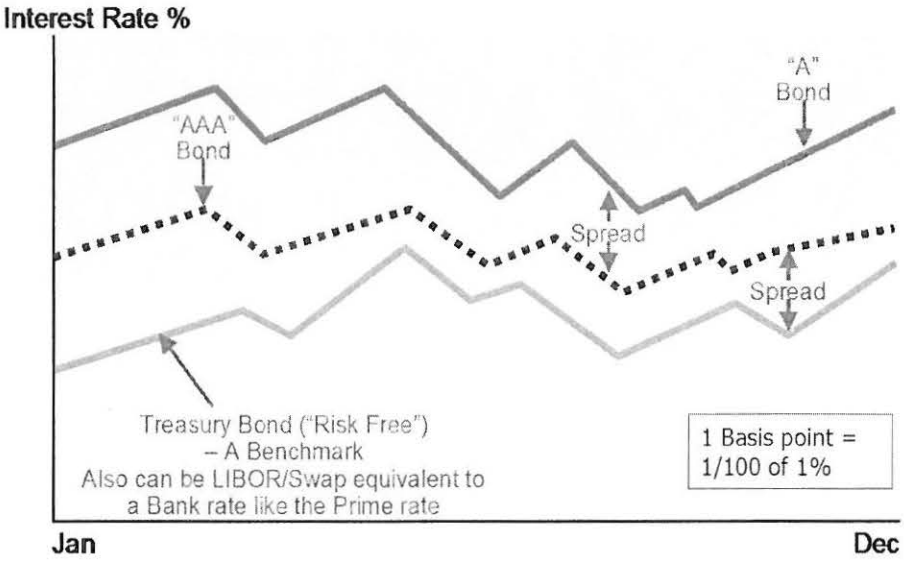
Securitization - The process by which a specific pool of assets, such as loan receivables, is used as a basis for issuing highly-rated (often AAA) bonds. The finite pool of assets is usually created and transferred to a trust or, in a utility securitization, to a bankruptcy remote entity, known as a special purpose entity (SPE). The entire right, title and interest in the assets is transferred at a fair market value to the SPE. The SPE pledges the assets to secure the bonds, and the cash flows from those assets are used to pay principal and interest on the bonds. Thus, the risk to the bondholder is just the risk associated with the cash flows from the assets in the SPE. The assets can be physical

(such as plant and equipment) or intangible (such as a loan receivable or the right to some other revenue stream).

Special purpose entity (SPE) - A bankruptcy remote (see **bankruptcy remote** definition, above) legal entity set up for the express purpose of owning the right, title and interest in the assets used to secure the bonds and provide the cash flows to pay interest and principal on the bonds.

Spread - The difference between the market yields of different fixed income securities of similar maturities, usually expressed in basis points. If a Treasury bond maturing in seven years is trading to yield 3.87%, and a AAA-rated corporate bond maturing in seven years is trading to yield 4.25%, the corporate bond is said to trade at a 38 basis point spread to the Treasury bond (4.25 – 3.87 = .38).

Spread is the easiest way to compare the cost of funds represented by different debt securities with similar structural characteristics. Participants usually will refer to the spread "relative to Treasuries" or "relative to swaps" as the most meaningful way to compare a given debt security to the most liquid, most secure, and most easily available benchmark for a given maturity. Spreads are often referred to as either "tight" or "wide" to the benchmark. (See **Tight spread/Wide spread** definition below.)



Swaps, or interest rate swap agreements - An interest rate swap exchanges a floating rate for a fixed rate on bonds. Under certain market conditions, a combination of floating-rate bonds and fixed-rate swaps could produce a lower overall "synthetic" fixed interest rate for ratepayers. Certain investors prefer a floating rate, while other investors prefer a fixed rate. For example, many European investors prefer a floating rate. There may be an opportunity to lower overall ratepayer costs by issuing floating-rate nuclear asset-recovery bonds and swapping them to a synthetic fixed rate.

Tranche - A tranche is a piece of a larger bond offering with its own cash flows, i.e. principal amount, maturity and interest rate, but governed by the same documents as the larger bond offering, i.e. prospectus, trust agreement, servicing agreement, etc.

Tight spread/Wide spread - If a spread is considered "tight," it is low and closer to the benchmark rate. If it is "wide," the interest rate is much higher than the benchmark rate. Interest

rates are composed of the benchmark plus the spread. Thus, a tight spread means a lower interest rate. Issuers want a tight spread, while buyers prefer a wide spread.

True-Up Period - The time in which nuclear asset-recovery charges and costs involved in an agreement are revised after the commencement of the contract. For instance, within 180 days after the commencement date, the parties will agree to revise the nuclear asset-recovery charges based on actual experience over the past 180 days. In this example, this will be done at the end of every future 180-day period.

Underwrite - This refers to the actions of an investment bank when it initially purchases newly issued bonds with the intention of re-offering or re-selling them to the ultimate investors in the secondary market; thus the investment bank is hoping to assume the market risk for a short period of time. In order to actually underwrite bonds, underwriters need to have capital at risk,

Underwriters - Investment banks that initially purchase the bonds and re-offer the bonds in the secondary market to the ultimate investors and put their capital at risk in doing so. A lead underwriter (sometimes called the "book-running" manager and most often called a "lead manager") is responsible for assembling and leading a syndicate that generally includes additional investment banks in an effort to reach the widest audience of buyers. A "co-lead underwriter" (or "co-manager") is another firm that also assumes responsibility to purchase the bonds from the issuer. Nowadays, in practice, the underwriters of a bond issue often have orders for 100% of a new issue before it is sold to anyone, and consequently the underwriters do not hold the bonds or take any appreciable market risk. This enables the underwriters to be rid of the risk they would otherwise assume. Underwriters are paid for taking risk, so when they price the bonds to "fly out the door," (i.e., little or no risk to the underwriter, many times oversubscribed) this is not a good thing for ratepayers. Example: If one puts his home up for sale, and it sells the first day, he can be relatively certain he did not receive the best price for his home even though his real-estate broker was paid handsomely.

Weighted average life (WAL) - The amount of time (in years), on average, the principal amount will remain outstanding. It is calculated by weighting the time each component of the principal is outstanding times the principal amount. Thus, for a bond that pays back all its principal at final maturity, the WAL is the same as the final maturity. However, utility securitization bonds amortize principal over a number of years, so the WAL is always less than the final maturity of the bond.

Yield, current - The annual coupon amount of interest on a bond, divided by the selling price (expressed as a percentage). A $1,000 principal amount bond that sells for $1,000 with a $50 annual interest coupon has a 5% yield. The lower the price, the higher the yield; the higher the price, the lower the yield.

Yield to maturity - Yield to maturity is the discount rate at which the sum of all future cash flows from the bond (coupons and principal) is equal to the price of the bond. This measure of yield takes into account the difference between the current price and the principal value at redemption. This is the yield referred to when pricing a bond and comparing to the yield on benchmark securities. It is more reflective of true value because it accounts for the time value of money.

2007

CCH ACCOUNTING FOR

FINANCIAL ASSETS AND LIABILITIES:

SALES, TRANSFERS, AND EXTINGUISHMENTS

JOHN E. STEWART, CPA
JAMES F. GREEN, CPA
and
THE ACCOUNTING RESEARCH MANAGER GROUP

CCH
a Wolters Kluwer business

Question: Is a transfer of trade receivables for which the related goods or services have been provided, but for which the related receivables have not been billed, a transfer of financial assets that is accounted for under Statement 140?

Response: Yes. A common situation that creates unbilled receivables is when a utility company is able to recognize revenue for the service it provides to its customers but, due to its billing cycle, the customers are not invoiced until a later date. Since the utility has provided the service to its customer, it has a contractual right to receive payment for services rendered and generally would have recognized the related sale of electricity as revenue. Thus, unbilled receivables are recorded financial assets, the transfer of which would be accounted for under Statement 140. One possible technique to determine whether the would-be transferor has a contractual right to receive payment equal to the amount of the unbilled receivable would be to confirm the existence of the receivable amount with a sample of customers.

4-12. Securitization of Regulatory Assets

Summary: Regulatory assets (often called stranded costs) are not financial assets and therefore are not covered by Statement 140. The SEC staff believes EITF Issue No. 88-18, "Sales of Future Revenues," covers them.

Question (from FASB Staff Implementation Guide, Question 6):

> The deregulation of utility rates charged for electric power generation has caused electricity-producing companies to identify some of their electric power generation operations as "stranded costs." Prior to deregulation, utilities typically expected to be reimbursed for costs through regulation of rates charged to customers. After deregulation, some of these costs may no longer be recoverable through unregulated rates. Hence, such potentially unrecoverable costs often are referred to as stranded costs. However, some of those stranded costs may be recovered through a surcharge or tariff imposed on rate-regulated goods or services provided by another portion of the entity whose pricing remains regulated.
>
> Some entities have securitized their enforceable rights to impose that tariff (often referred to as "securitized stranded costs"), thereby obtaining cash from investors in exchange for the future cash flows to be realized from collecting surcharges imposed on customers of the rate-regulated goods or services. Are securitized stranded

costs considered to be financial assets, the transfer of which would be within the scope of Statement 140?

Response (from FASB Staff Implementation Guide, Question 6):

No. Paragraph 364 defines *financial asset* as "...a contract that conveys to a second entity a *contractual right* (a) to receive cash or another financial instrument from a first entity or (b) to exchange other financial instruments on potentially favorable terms with the first entity" (emphasis added). Therefore, to be a financial asset, an asset must arise from a contractual agreement between two or more parties, not by an imposition of an obligation by one party on another. This notion in Statement 140 is consistent with the notion discussed in paragraph 39 of FASB Statement No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*,[2] which stated:

> Other contingent items that ultimately may require the payment of cash but do not as yet arise from contracts, such as contingent liabilities for tort judgments payable, are not financial instruments. However, when those obligations become enforceable by government or courts of law and are thereby contractually reduced to fixed payment schedules, the items would be financial instruments under the definition.

Securitized stranded costs are not financial assets, and therefore transfers of securitized stranded costs are not within the scope of Statement 140. Securitized stranded costs are not financial assets because they are imposed on ratepayers by a state government or its regulatory commission and, thus, while an enforceable right for the utility, they are not a *contractual* right to receive payments from another party. To elaborate, while a right to collect cash flows exists, *it is not the result of a contract* and, thus, not a financial asset. Refer to Question 7 [Interpretation 2-4].

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[2] Although Statement 105 was superseded by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the Board's definition of *financial asset* continues to be based on the definition of a financial instrument found in Statement 105.

Commentary: We discussed this issue with the SEC staff before the issuance of the FASB Staff Implementation Guide on Statement 125 (which preceded the Statement 140 FASB Staff Implementation

Guide). The SEC staff concluded that regulatory assets are not financial assets. The staff believes the legislation that provides for the securitization of regulatory assets simply allows the utility's regulatory authority to impose a tariff on electricity sold in the future. The law, however, does not transform regulatory assets into financial assets since they generally do not qualify to be accounted for as revenue until they are "billable" to the customer. The basis for the SEC staff's conclusion is that the resulting law creates an enforceable right (which is a right imposed on one party by another, such as a property tax), but not a contractual right. The SEC staff, after consulting with the FASB staff, concluded that the FASB specifically limited financial assets to contractual rights to cash or other financial assets, which are essentially a subset of enforceable rights. Thus, such an enforceable right does not meet the definition of a financial asset.

The SEC staff also concluded that the proceeds received by the utility do not represent cash for assets sold, but cash received for future services. This approach effectively precludes accounting for this type of a transaction as a sale outside of Statement 140. The SEC staff believes the proceeds represent debt. EITF Issue No. 88-18, "Sales of Future Revenues," provides the most relevant guidance to make that determination (see Interpretation 4-9).

4-13. Transfers of Minimum Lease Payments Under an Operating Lease

Summary: Transfers of contractual payments receivable under an operating lease are not within the scope of Statement 140.

Question (from FASB Staff Implementation Guide, Question 1):

> If a right to receive the minimum lease payments to be received under an operating lease is transferred, could it be considered a financial asset within the scope of Statement 140?

Response (from FASB Staff Implementation Guide, Question 1):

> No. A right to receive the minimum lease payments to be received under an operating lease is an unrecognized financial asset. As stated in paragraph 4, Statement 140 "does not address... transfers of unrecognized financial assets, for example, minimum lease payments to be received under operating leases."

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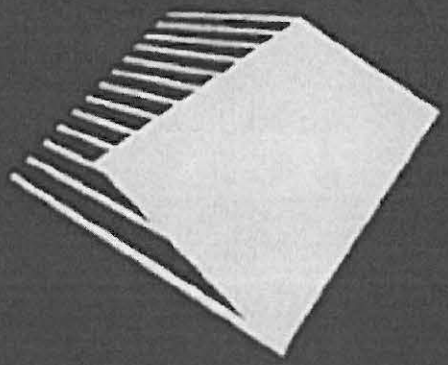

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D.R. Carmichael

asset's carrying amount and subsequently allocated to expense over that asset's useful life. ASC Topic 410 includes special provisions for entities that apply ASC Topic 980. Differences between amounts collected through rates and amounts recognized in accordance with ASC Topic 410 were recognized as regulatory assets and liabilities if the requirements of ASC Topic 980 were met.

(v) Securitization of Stranded Costs, Including Regulatory Assets. In connection with the electric industry restructuring efforts that occurred in a number of states, regulatory mechanisms were established to mitigate potential stranded costs. The legislative or regulatory framework for moving to a competitive marketplace included provisions when issued for the affected companies to securitize or "monetize" all or a portion of their stranded costs through the issuance of debt securities that would provide the utility with a lower cost of capital than that to which they were previously exposed. Generally, such provisions establish a separate unbundled revenue stream from the current bundled stream, surcharge, or tariff that would be the source of recovery from a company's rate payers for the stranded costs. Companies securitize their rights to impose such revenue stream, surcharge, or tariff by receiving cash flows from investors in exchange for future cash flows to be collected from customers. The utility would issue debt obligations in an amount equal to its stranded costs (or portion thereof). The resulting debt obligations would be nonrecourse since the company would sell the stranded costs to a credit-enhanced, bankruptcy remote special-purpose entity or trust established to finance the purchase through the sale of state-authorized debt. Collections of the tariff by the company would be passed through to holders of the debt as periodic payments of interest and principal.

The potential benefits to a company from securitizing stranded costs include the opportunity to improve credit quality and to use the proceeds to reduce leverage and fixed charges, or fund the termination of uneconomic contracts. The expectation is that monetizing the stranded costs would result in lower rates for consumers since higher cost of capital is effectively replaced by traditional utility debt with lower cost.

In February 1997, the SEC's Office of Chief Accountant provided financial reporting guidance to California's utility registrants for proceeds received in connection with a stranded cost securitization. The SEC Staff concluded that the proceeds received should be classified as either debt or deferred revenue based on the guidance in ASC Topic 470-10-25, *Debt*.

ASC Topic 470-10-25 reached a consensus that the presence of any one of six specifically identified factors independently creates a rebuttable presumption that classification of the proceeds as debt is appropriate. The facts and circumstances of stranded cost securitization transactions will typically result in the presence of one or more of the factors. Thus, securitization proceeds are generally expected to be classified as debt for financial reporting purposes.

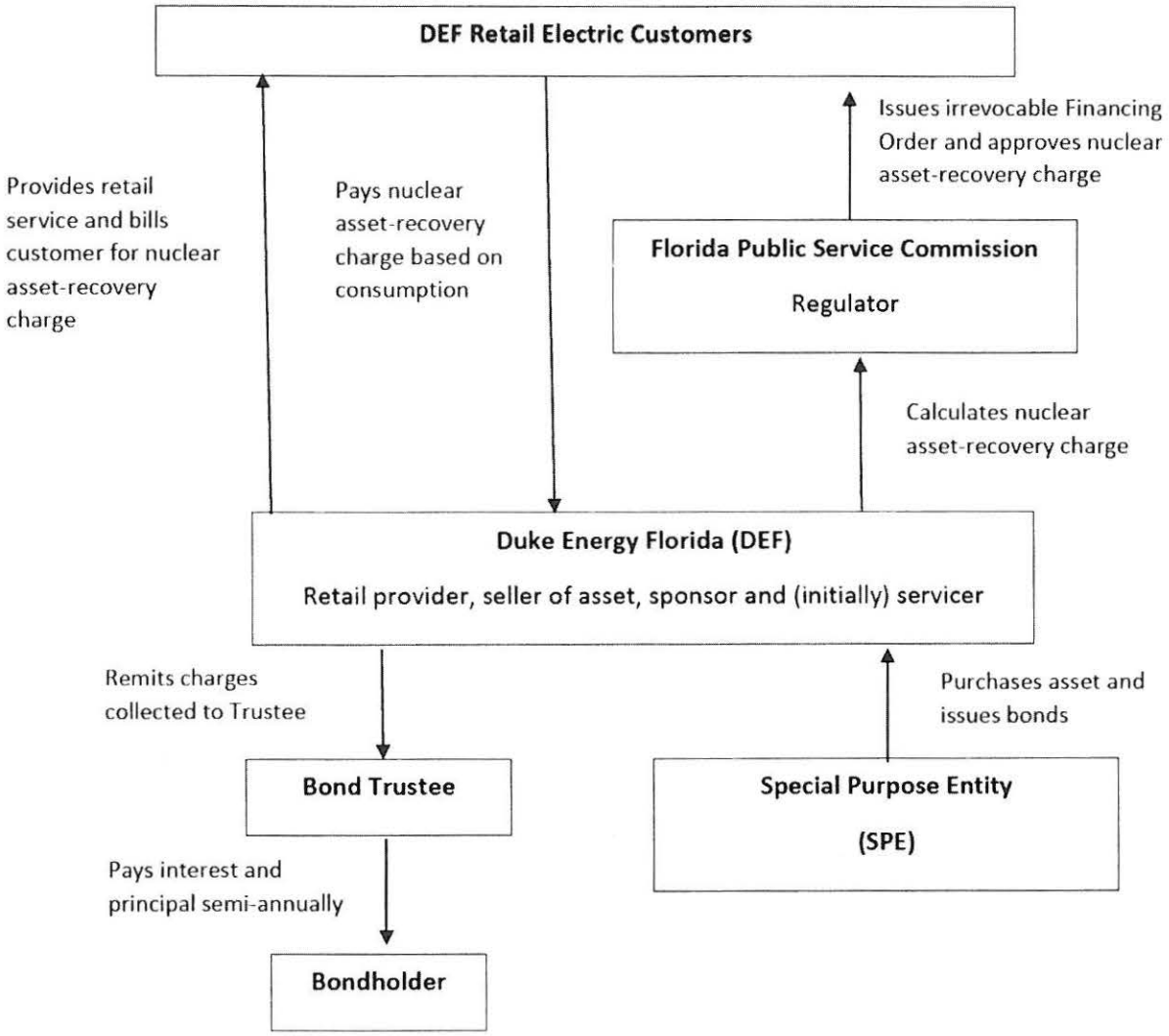
ASC Topic 470-10-25 also concluded that amounts recorded as debt should be amortized under the interest method. Generally, this will result in an increasing amount of stranded cost recognition in the income statement during the securitization period. This occurs because the amount recognized will equal the principal portion (on a mortgage basis) of the tariffed debt service cost that is billable to customers and recorded as revenue during each period.

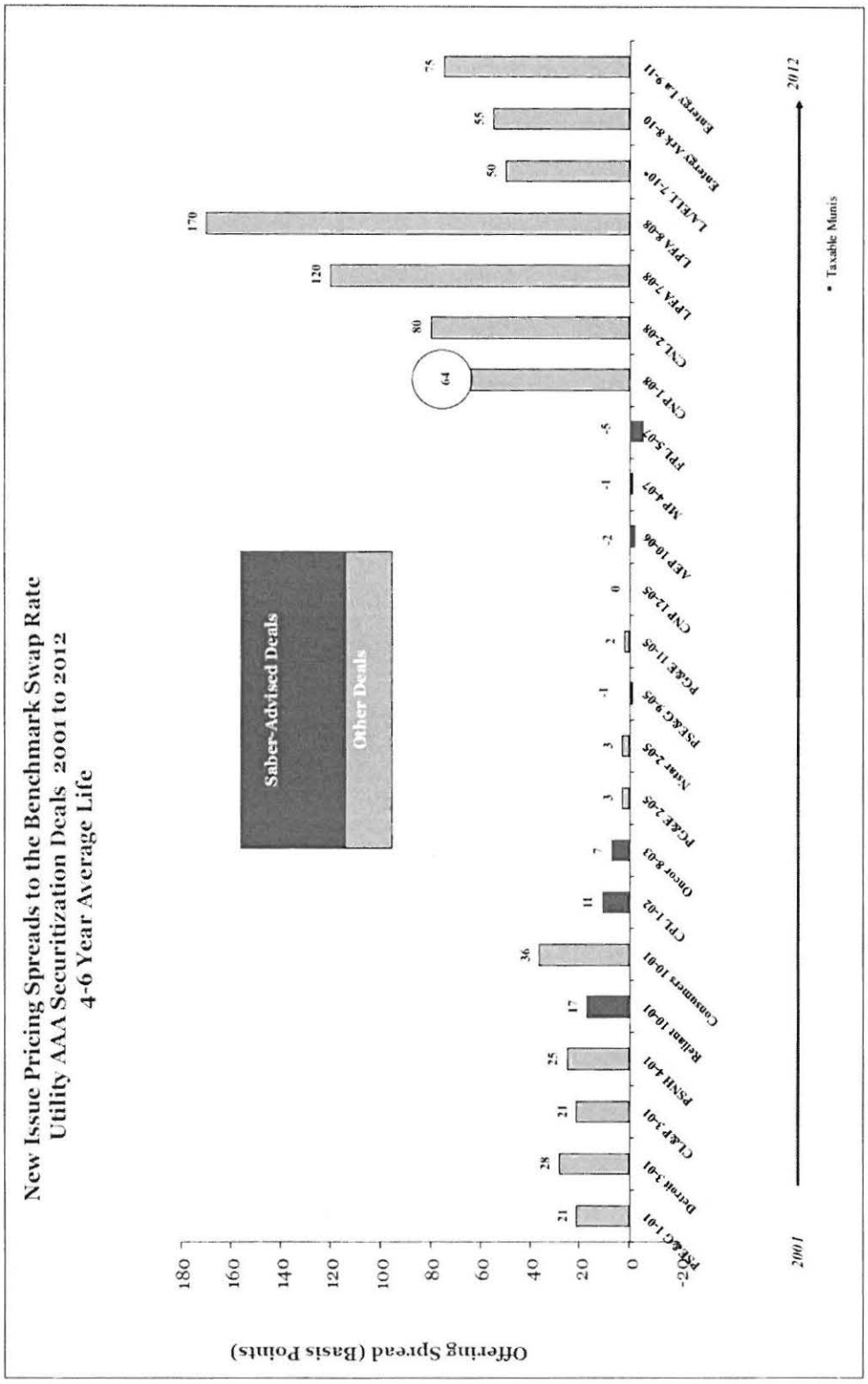
In connection with providing classification guidance, the SEC Staff also concluded that regulatory assets are not financial assets. This is supported by ASC Topic 860-55-8, *Transfers and Servicing*, and SFAS No. 166, *Accounting for Transfers of Financial Assets—an Amendment of FASB No. 140*-FASB Statement Appendix C paragraph 6. Further, the legislation that provides for the securitization of regulatory assets simply allows the utility's regulator to impose a surcharge or tariff on electricity sold in the future. The law, however, does not transpose regulatory assets into financial assets. The basis for the SEC Staff's conclusion is that the resulting law creates an enforceable right (which is a right imposed on one party by another, such as a property tax) and not a contractual right. The SEC Staff, after consulting with the FASB Staff, concluded that the FASB specifically limited financial assets to a contractual right, which is essentially a subset of an enforceable right. Thus, enforceable rights that are not contractual rights do not meet the definition of a financial asset under ASC Topic 860-55-8. However, beneficial interests in a securitization trust that holds nonfinancial assets, such as securitized stranded costs, would be considered financial

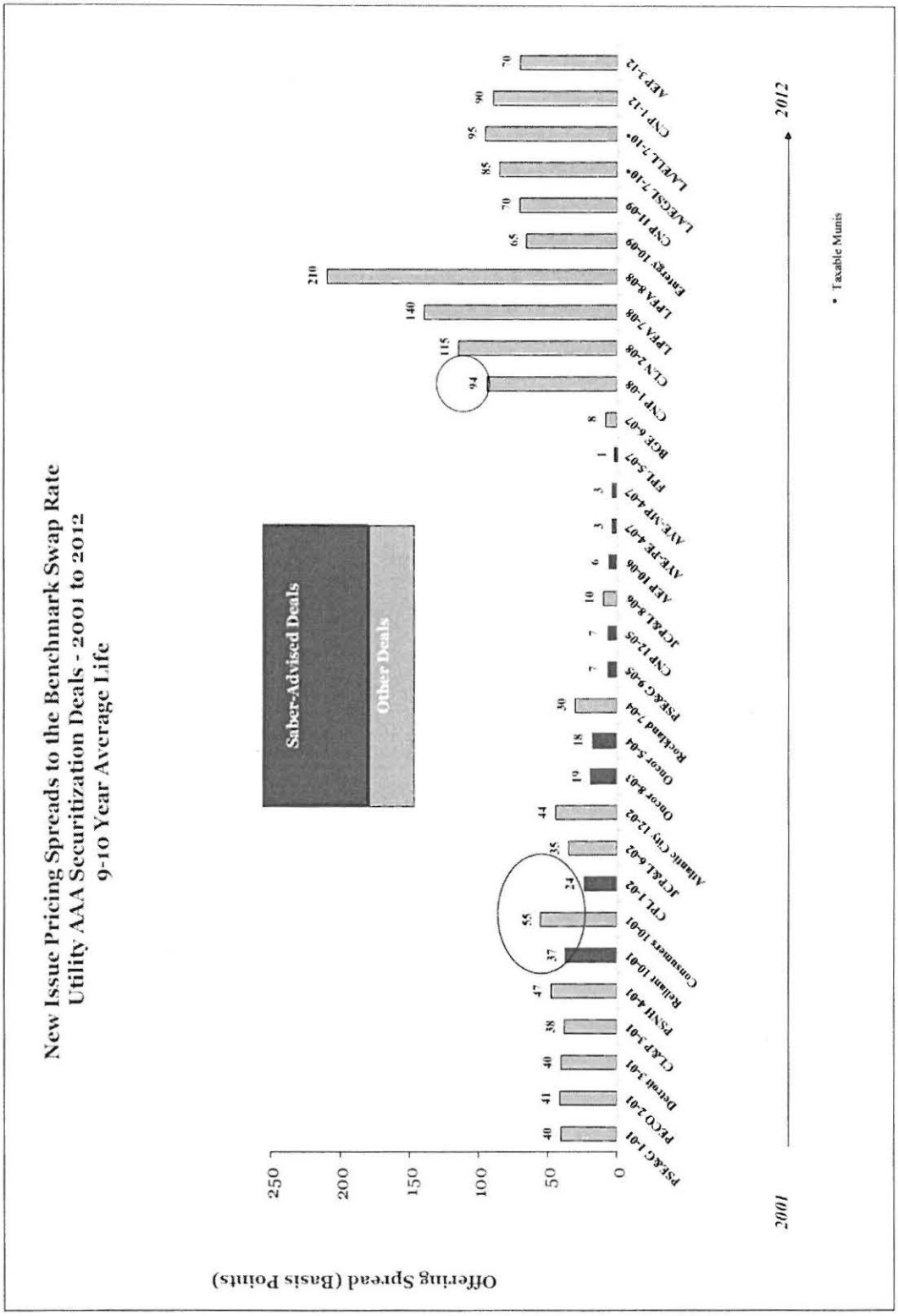
Financial Accounting Standards Board (FASB)
Accounting Standards Codification (ASC)
Topic 860-10-55-8

Securitized stranded costs are not financial assets, and therefore transfers of securitized stranded costs are not within the scope of this Subtopic. Securitized stranded costs are not financial assets because they are imposed on ratepayers by a state government or its regulatory commission and, thus, while an enforceable right for the utility, they are not a contractual right to receive payments from another party. To elaborate, while a right to collect cash flows exists, it is not the result of a contract and, thus, not a financial asset.

Participants in Nuclear Asset-Recovery Bond Transaction




New Issue Pricing Spreads to the Benchmark Swap Rate
Utility AAA Securitization Deals 2001 to 2012
4-6 Year Average Life
Saber-Advised Deals
Other Deals
Offering Spread (Basis Points)
2001
2012
* Taxable Munis
PSE&G 1-01
Detroit 3-01
CL&P 3-01
PSNH 4-01
Reliant 10-01
Consumers 10-01
CPL 1-02
Oncor 8-03
PG&E 2-05
Nstar 2-05
PSE&G 9-05
PG&E 11-05
CNP 12-05
AEP 10-06
MP 4-07
FPL S-07
CNP 1-08
CNL 2-08
LPFA 7-08
LPFA 8-08
LA/ELL 7-10*
Entergy-Ark 8-10
Entergy LA 9-11


New Issue Pricing Spreads to the Benchmark Swap Rate
Utility AAA Securitization Deals - 2001 to 2012
9-10 Year Average Life
Saber-Advised Deals
Other Deals
Offering Spread (Basis Points)
250
200
150
100
50
0
2001
2012
* Taxable Munis
PSE&G 1-01
PECO 2-01
Detroit 3-01
CL&P 3-01
PSNH 4-01
Reliant 10-01
Consumers 10-01
CPL 1-02
JCP&L 6-02
Atlantic City 12-02
Oncor 8-03
Rockland 7-04
PSE&G 9-05
CNP 12-05
JCP&L 8-06
AEP 10-06
ATE-PE 4-07
ATE-XP 4-07
FPL 5-07
BGE 6-07
CNP 1-08
CLV 2-08
LPFA 7-08
LPFA 8-08
Entergy 10-09
CNP 11-09
LA/ECSL 7-10*
LA/FLL 7-10*
CNP 1-12
AEP 3-12

Landmark Pricing

- Reliant spreads to UST lowest of all 2001 RRB deals
- At 0 to 5 basis points, Salomon Brothers Research Dept. also notes "*[Reliant] achieved the tightest spreads relative to [credit card ABS]*"[1/]-- the most relevant RRB benchmark
- Careful market evaluation and judicious timing prevented "rush to market"

Decision to "time the market" estimated to have saved Reliant ratepayers approximately $8-10 million (PV)

1/ See Salomon Smith Barney, *Stranded Asset Securitization Roundup*, Jan. 9, 2002

Source: Bear Stearns

Pricing Comparison
Reliant Energy vs. Consumers Power

- Spreads 15-20 basis points lower than comparable Consumers bonds priced just 3 weeks later:

Reliant Energy
Pricing Date: 10/17/01

Average Life (yrs)	Spread Over Benchmark (bps)
2.71	+16
5.19	+17
7.19	+22
10.29	+37

Consumers Power
Pricing Date: 11/8/01

Average Life (yrs)	Spread Over Benchmark (bps)
1	+30
3.00	+33
5.00	+36
7.00	+40
10.00	+55
12.85	+65

Approximate Reliant Savings (bps)
17
19
18
18

Compared to Consumers, narrower spreads saved Reliant ratepayers an additional estimated $7-9 million (PV)

1/ Salomon Smith Barney, *Structured Asset Securitization Roundup*, Jan. 9, 2002

Source: Bear Stearns

Soltas, Scott □□□□ □□□ □ ortgages□ □□□□ □□ □□□□□□□□ □onsumers □nergy □ricing

X-From_: SSoltas@exchange.ml.com Thu Nov 1 07:50:15 2001
X-Server-Uuid: 3789b954-9c4e-11d3-af68-0008c73b0911
From: "Soltas, Scott (CICG - NY Mortgages)" <SSoltas@exchange.ml.com>
To: "'jfichera@saberpartners.com'" <jfichera@saberpartners.com>
Subject: Consumers Energy Pricing
Date: Thu, 1 Nov 2001 07:47:27 -0500
X-Mailer: Internet Mail Service (5.5.2654.52)
X-WSS-ID: 17FF9B741128164-01-01

Joe -

I thought you might appreciate the final print on Consumers Energy. Judging by the timeline of initial price guidance, restructuring, and final pricing I'd have to assume that either (1) Consumers
was downgraded during the marketing process, (2) The RRB market widened out by 15 bps, or (3) MSDW does not have the marketing and distribution of the ML/GS/BS team, nor do they have Saber Partners
riding roughshod over the process. I'm pretty sure that the correct answer is (3).

As I recall, Reliant priced 3yrs at +16, 5yrs at +17, 7yrs at +22, and a whole lot more 10.29yrs at +37.

By the way, those spreads are still indicative of the Reliant RRB markets.

I feel even more comfortable signing that letter that says the rate payers got the best deal available in the market at that point in time now!

Congratulations on a great execution, again.

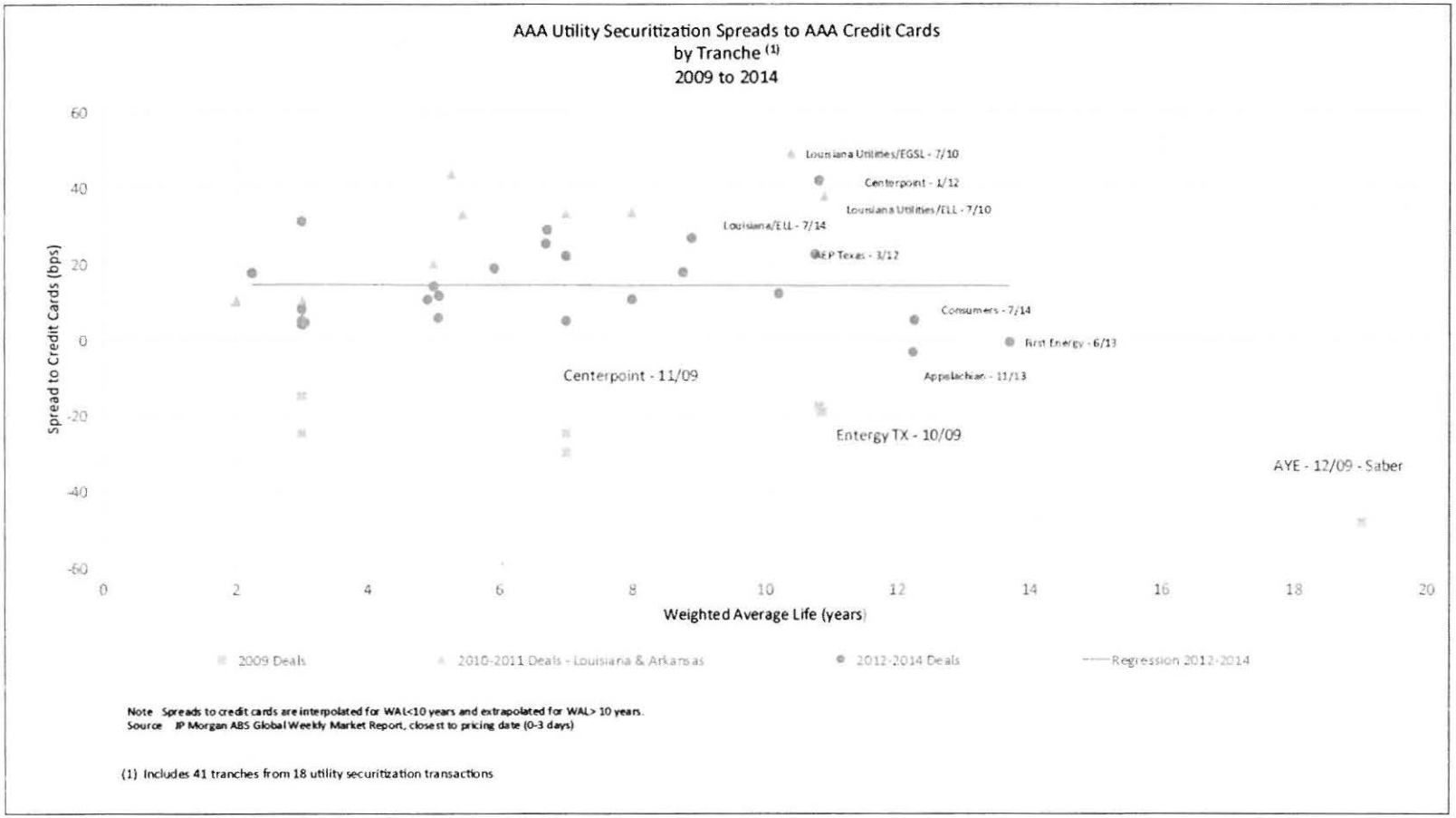
Best regards,

Scott

"Consumers Funding 2001-1" (Consumers Energy) $469mm rate reduction bond ABS has priced via Morgan Stanley.

	Size	Cl	Mdy/S&P/Ftch	Avg Life	Cpn	Price	Yld	Pxng Spread
-	$ 26mm	A-1	Aaa/AAA/AAA	1.0yrs	2.59%	99.99590	2.592%	+30bp/synth Li
-	$ 84	A-2	Aaa/AAA/AAA	3.0yrs	3.80	99.99182	3.813	swaps +33bp
-	$ 31	A-3	Aaa/AAA/AAA	5.0yrs	4.55	99.95901	4.578	swaps +36bp
-	$ 95	A-4	Aaa/AAA/AAA	7.0yrs	4.98	99.96793	5.010	swaps +40bp
-	$117	A-5	Aaa/AAA/AAA	10.0yrs	5.43	99.97673	5.464	swaps +55bp
-	$115.6	A-4	Aaa/AAA/AAA	12.8yrs	5.76	99.98053	5.798	swaps +65bp

Co-mgrs are BarCap, BOCM, JPM, Loop. Del Nov 8 flat.



Note Spreads to credit cards are interpolated for WAL<10 years and extrapolated for WAL> 10 years.
Source JP Morgan ABS Global Weekly Market Report, closest to pricing date (0-3 days)

(1) Includes 41 tranches from 18 utility securitization transactions

Docket No. 150171-EI
Witness: Sutherland
Exhibit No. ____ (PS-6)
AAA Utility Securitization Spreads to AAA Credit Cards
Page 1 of 1

July 17, 2013

Structured Products Research

Consumer ABS Research

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ABSolute Value: Rate Reduction Bond ABS Primer
An Overview of Utility Receivables Securitization

Executive Summary

- Securitizations of utility receivables have been known by several names: stranded-asset, rate-reduction and storm-recovery bonds. The market convention is to refer to all bonds in this sector as rate-reduction bonds or RRBs. We follow that convention in this report, which surveys the structural features of and conditions in the market for RRBs.
- RRBs are securitizations backed by the future collections of special charges applied to electric utility bills. The amount of the collection is based on power usage, which can vary from year to year based on weather or economic conditions.
- The bonds issued in this sector are structured with robust legal and regulatory protections to mitigate the potential political risks that may stem from the introduction of the utility tariff on ratepayer bills.
- Internal credit enhancement tends to be relatively low compared to benchmark consumer ABS due to these legal safeguards as well as the presence of the "true-up mechanism." This procedure allows the utility tariff to be adjusted, either up or down, in the event that tariff collections are significantly different than what would be needed to meet the scheduled amortization of the bonds. It has been used successfully in several cases.
- RRB issuance has been relatively light in recent years, although outstanding bonds stood at $11.3 billion as of Q2 2013 due to the relatively long average lives of the bonds. RRBs repay principal based on a scheduled amortization, which limits the prepayment risk and may make payments quarterly or semiannually, similar to corporate bonds.
- RRBs have similarities to secured utility bonds, such as first-mortgage bonds, and have found an audience from corporate crossover buyers, in our opinion. However, RRBs have significant legal and regulatory protections not normally found in corporate bonds.
- In our opinion, RRBs offer some of the best relative value in the consumer ABS market for the credit risk taken. Spreads of rate-reduction bond ABS have remained relatively wide throughout the post-crisis period. RRB spreads that trade at +4 bps or more to benchmark credit card ABS represent better relative value opportunities, in our opinion.

Table of Contents

Utility Receivables – What's in a Name?

Rate-reduction bond ABS are securitizations backed by the future collections of special charges applied to electric utility bills. The amount of the collection is based on power usage. These utility receivables deals have been identified by different names since first coming on the ABS scene in 1997. The earliest deals were called "stranded assets" because the charges applied to ratepayer bills were meant to defray the costs of nuclear power plants that would no longer be economic in a deregulated power-generation market. The investments were economically "stranded" under the previous regulatory regime and could not be recovered under ordinary market conditions.

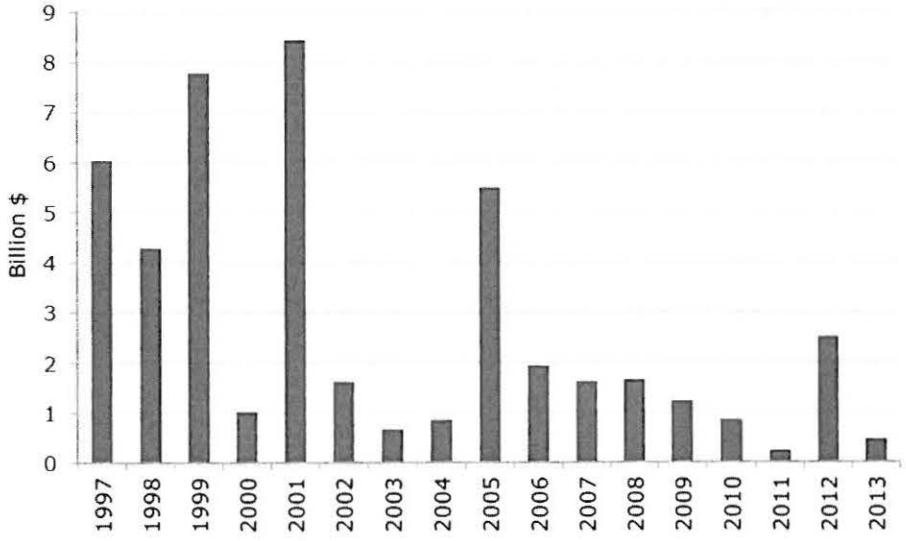
Later deals were termed "rate-reduction" bonds because electric utilities were allowed to recover the costs of certain infrastructure investments and, in turn, pass along lower utility rates to customers. Again, a deregulated power-generation market was intended to bring lower costs to end users. More recent deals have been christened "storm-recovery" bonds because utilities in various states have been allowed to apply a surcharge to bills to help pay for reconstruction and repairs to power networks damaged by hurricanes or other storms.

Despite the different names and reasons for implementation of the utility tariffs, the structural features and credit protections are generally the same. The market convention is to refer to all bonds in this sector *rate-reduction bonds*, or RRBs. We follow that convention in this report, which surveys the structural features of and conditions in the market for RRBs.

Issuance and Outstanding

The amount of RRB issuance in the early years was substantial, and many market participants expected considerable upside from the sector. Indeed, $27.5 billion of RRBs were issued in the five years from 1997–2001. However, in the following 12 years, including YTD 2013, the market has averaged just $1.6 billion per year, and only 2005 exceeded $5 billion (Exhibit 1). RRBs have become a smaller niche sector than many would have anticipated, but we believe RRBs offer certain characteristics that may not be found in other ABS sectors.

Exhibit 1: Rate Reduction Bond ABS Issuance

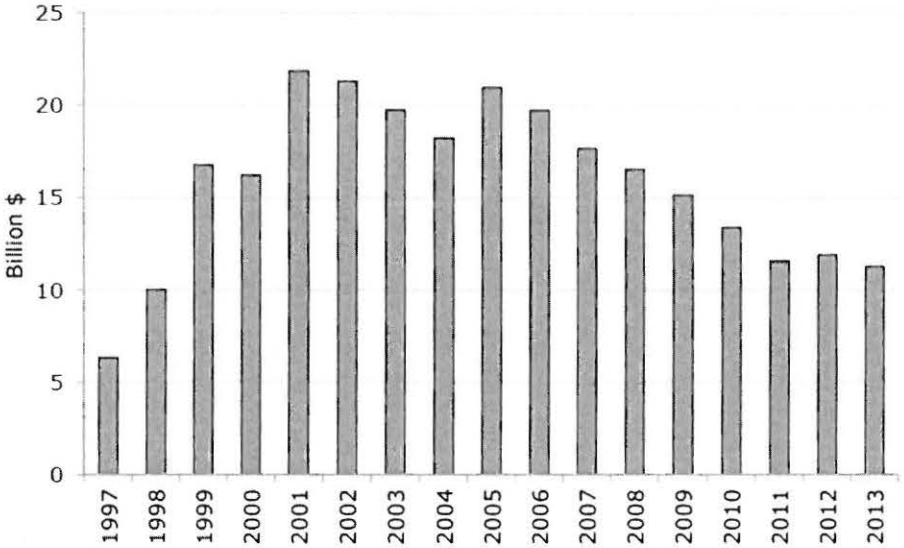


Source: Asset-Backed Alert, Bloomberg, Wells Fargo Securities, LLC.

RRBs repay principal based on a scheduled amortization, which limits the prepayment risk found in many other ABS backed by consumer receivables. Furthermore, the bonds may pay interest and principal quarterly or semiannually, similar to corporate bonds. This feature is one reason that RRBs have found an audience from corporate crossover buyers, in our opinion. RRBs have similarities to secured utility bonds such as first-mortgage bonds.

However, RRBs have significant legal and regulatory protections not normally found in a secured corporate bond. In addition, RRBs, in most cases, offer longer average lives than the typical auto or credit card ABS, with many bonds reaching seven years or more. Bonds with average lives of 10 years or more are not unusual. The longer average lives, combined with fixed-rate coupons offer ABS investors access to longer duration bonds.

Exhibit 2: RRB ABS Outstanding



Source: SIFMA.

Those longer principal windows and average lives are the reasons that the amount of RRBs outstanding is much higher than might have been expected given the dearth of new-issue volume over the past few years. Total RRBs outstanding fell to the $11 billion–$12 billion range from 2011–2013 from the most recent peak of $21 billion in 2005 (Exhibit 2). The RRB sector accounted for about 2% of total consumer ABS outstanding as of Q2 2013. A modest amount of issuance should keep the amount of ABS backed by utility receivables stable.

However, it can be difficult to forecast new-issue volume of RRBs because of the long legislative and regulatory lead times required to complete these deals. The utilities may also find it more advantageous to issue corporate debt instead of ABS. The history of RRB deals and their utility sponsors are listed in Exhibit 3. Deal sizes averaged approximately $1.1 billion from 1997–2005, but declined to $575 million after 2005. This average amount was boosted by two deals that weighed in at $1.7 billion each. Excluding those two deals, the average deal size since 2005 has been $433 million.

Exhibit 3: Rate Reduction Bond ABS Deals and Utility Sponsors

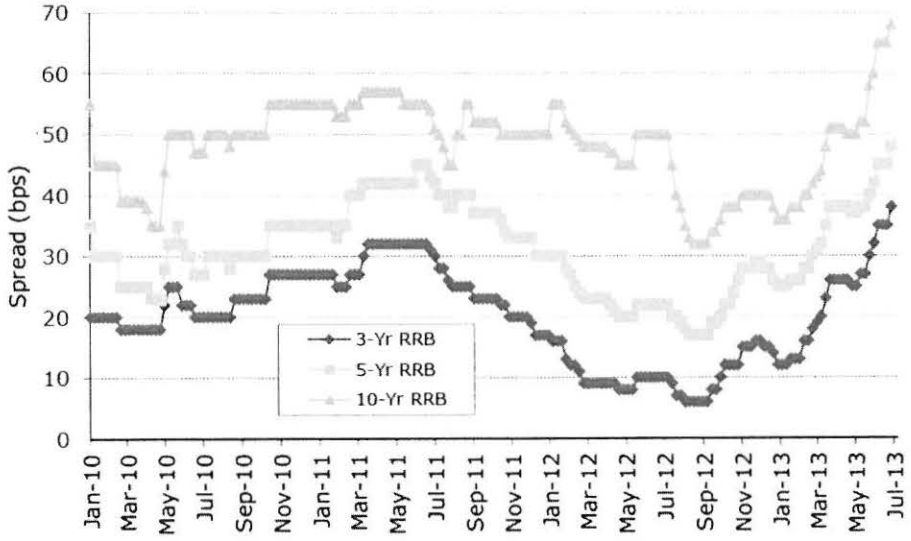
Deal Name	Pricing Date	Original Balance (MM$)	Trust Name	Utility Sponsor
CIPGE 1997-1	11/25/97	2,901	California Infrastructure PG&E	Pacific Gas and Electric Company
CISDG 1997-1	12/4/97	658	California Infrastructure SDG&E	San Diego Gas and Electric Company
CISCE 1997-1	12/4/97	2,463	California Infrastructure SCE	Southern California Edison Company
COMED 1998-1	12/7/98	3,400	COMED Transitional Funding Trust	Commonwealth Edison Company
IPSPT 1998-1	12/10/98	864	Illinois Power Special Purpose Trust	Illinois Power Company
PECO 1999-A	3/18/99	4,000	Peco Energy Transition Trust	Peco Energy Company
SPPC 1999-1	3/30/99	24	Sierra Pacific Power Company	Sierra Pacific Power Company
BECO 1999-1	7/14/99	725	Massachusetts RRB Special Purpose Trust	Boston Edison Company
PPL 1999-1	7/29/99	2,420	PP&L Transition Bond Company LLC	PPL Electric Utilities Corp.
WPP 1999-A	11/3/99	600	West Penn Funding LLC Transition Bonds	West Penn Power
PECO 2000-A	4/27/00	1,000	Peco Energy Transition Trust	Peco Energy Company
PEGTF 2001-1	1/25/01	2,525	PSE&G Transition Funding LLC	Public Service Electric & Gas Co.
PECO 2001-A	2/15/01	805	Peco Energy Transition Trust	Peco Energy Co
DESF 2001-1	3/2/01	1,750	Detroit Edison Securitization Funding LLC	Detriot Edison Company
CTRRB 2001-1	3/27/01	1,438	Connecticut RRB Special Purpose Trust	Connecticut Light & Power
PSNH 2001-1	4/20/01	525	Public Service New Hampshire Funding LLC	Public Service Company of New Hampshire
WMECO 2001-1	5/14/01	155	Massachusetts RRB Special Purpose Trust	Western Massachusetts Electric Company
CNP 2001-1	10/17/01	749	CenterPoint Energy Transition Bond Company IV	CenterPoint Energy Houston Electric LLC
CONFD 2001-1	10/31/01	469	Consumers Funding LLC	Consumers Energy Co
PSNH 2002-1	1/16/02	50	Public Service New Hampshire Funding LLC	Public Service Company of New Hampshire
AEPTC 2002-1	1/31/02	797	AEP Texas Central Transition Funding	Central Power and Light Company
JCPL 2002-A	6/4/02	320	JCP&L Transition Funding LLC	Jersey Central Power & Light
ACETF 2002-1	12/11/02	440	Atlantic City Electric Transition Funding LLC	Atlantic City Electric Company
ONCOR 2003-1	8/14/03	500	Oncor Electric Delivery Transition Bond LLC	Oncor Electric Delivery Co.
ACETF 2003-1	12/18/03	152	Atlantic City Electric Transition Funding LLC	Atlantic City Electric Company
ONCOR 2004-1	5/28/04	790	Oncor Electric Delivery Transition Bond LLC	Oncor Electric Delivery Co.
RCTF 2004-1A	7/28/04	46	Rockland Electric Co Transition Funding LLC	Orange and Rockland Utilities, Inc.
PERF 2005-1	2/3/05	1,888	PG&E Energy Recovery Funding LLC	Pacific Gas & Electric Co.
BECO 2005-1	2/15/05	675	Massachusetts RRB Special Purpose Trust	Boston Edison Co.; Commonwealth Electric Co.
PEGTF 2005-1	9/9/05	103	PSE&G Transition Funding LLC	Public Service Electric and Gas Co.
WPP 2005-A	9/22/05	115	West Penn Funding LLC Transition Bonds	West Penn Power
PERF 2005-2	11/9/05	844	PG&E Energy Recovery Funding L	Pacific Gas & Electric Co
CNP 2005-A	12/9/05	1,851	CenterPoint Energy Transition Bond Company IV	CenterPoint Energy
JCPL 2006-A	8/4/06	182	JCP&L Transition Funding LLC	Jersey Central Power & Light
AEPTC 2006-A	9/26/06	1,740	AEP Texas Central Transition Funding	AEP Texas Central Co.
FPL 2007-A	5/17/07	652	FPL Recovery Funding LLC	Florida Power & Light Co
EGSI 2007-A	6/22/07	330	Entergy Gulf States Reconstruction Funding LLC	Entergy Texas Inc
RSBBC 2007-A	6/29/07	623	RSB Bondco LLC	Baltimore Gas & Electric Co
CNP 2008-A	1/29/08	488	CenterPoint Energy Transition Bond Company IV	CenterPoint Energy
CLECO 2008-A	2/28/08	181	Cleco Katrina/Rita Hurricane Recovery Funding LLC	Cleco Power LLC
LPFA 2008-ELL	7/22/08	688	Louisiana Utilities Restoration Corp./ELL	Entergy Louisiana LLC
LPFA 2008-EGSL	8/20/08	278	Louisiana Utilities Restoration Corp./EGSL	Entergy Gulf States Louisiana
ETI 2009-A	10/29/09	546	Entergy Texas Restoration Funding LLC	Entergy Texas Inc
CNP 2009-1	11/18/09	665	CenterPoint Energy Transition Bond Company IV	CenterPoint Energy
LCDA 2010-EGSL	7/16/10	244	Louisiana Local Gov't Environmental Facilities and Community Development Authority	Entergy Gulf States Louisiana
LCDA 2010-ELL	7/16/10	469	Louisiana Local Gov't Environmental Facilities and Community Development Authority	Entergy Louisiana LLC
EAI 2010-A	8/11/10	124	Entergy Arkansas Restoration F	Entergy Arkansas Inc
ELL 2011-A	9/15/11	207	Entergy Louisiana Investment R	Entergy Louisiana LLC
CNP 2012-1	1/11/12	1,695	CenterPoint Energy Transition Bond Company IV	CenterPoint Energy
AEPTC 2012-1	3/7/12	800	AEP Texas Central Transition Funding	AEP Texas Central Co.
FEOH 2013-1	6/12/13	445	FirstEnergy Ohio PIRB Special Purpose Trust	FirstEnergy Corp.

Source: Asset-Backed Alert, Bloomberg, Wells Fargo Securities, LLC.

Relative Value Analysis to Benchmark Cards

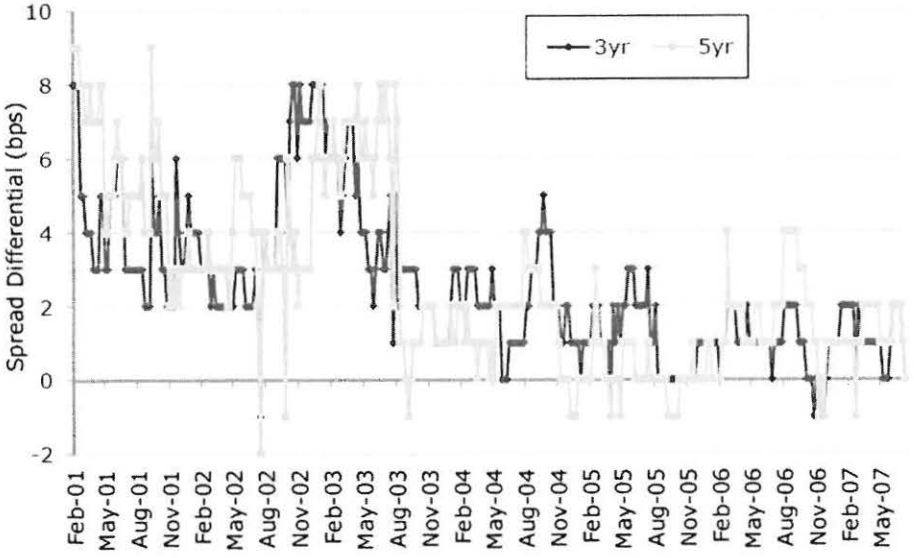
Spreads of rate-reduction bond ABS have remained relatively wide throughout the post-crisis period and have exhibited some wide swings over the past few years. Since hitting their post-crisis lows in September 2012, spreads have widened by about 30 bps through July 12, 2013 (Exhibit 4). We believe that this trend has been influenced by a general widening of spreads in the ABS market during 2012, and increased volatility brought on by the market's reaction to Federal Reserve policy communications. In our opinion, RRBs offer some of the best relative value in the consumer ABS market for the credit risk taken.

Exhibit 4: RRB Spreads



Source: Wells Fargo Securities, LLC.

Exhibit 5: RRB / Credit Card ABS Spread Differential – 2001-2007

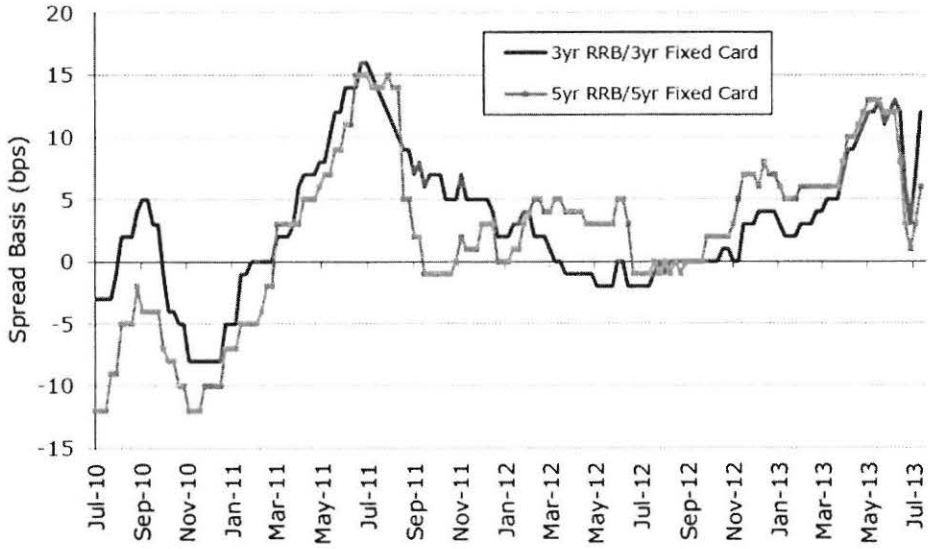


Source: Wells Fargo Securities, LLC.

Wells Fargo Securities has collected generic spreads on the RRB sector back to 2001. In our opinion, assessing relative value in rate-reduction bond ABS can be best accomplished by reviewing the spread differential between RRBs and benchmark credit card ABS. This relationship from 2001 to just before the market dislocation in July 2007 is charted in Exhibit 5. The average weekly difference was +4 bps to +6 bps, depending on the tenor of the bonds from 2001 to June 2003. However, the range of the spread differential was a wider +2 bps to +9 bps for three-year and five-year average life bonds.

After June 2003, the spread differential narrowed to an average weekly level of just about +1 bp, and this difference was stable across the benchmark tenors in RRBs (three-year, five-year and 10-year average lives). We believe that an increase in the amount of bonds outstanding and the number of issuers, as well as increasing investor acceptance, helped push the spread differential tighter. The week-to-week variability was relatively low, and this pattern was consistent with the benchmark auto and credit card ABS sectors. It indicated a meaningful increase in transparency and liquidity, in our view.

Exhibit 6: RRB / Credit Card ABS Spread Differential – 2010-2013



Source: Wells Fargo Securities, LLC.

RRBs traded well inside credit card ABS during the depths of the financial crisis in late 2008 and early 2009 (spreads 200 bps–300 bps inside) because investors placed a higher risk premium on large commercial banks and their credit card portfolios during this period. However, it took almost another two years for the spread relationship to normalize by early 2011.

The average weekly spread differential has returned to pre-crisis levels of +2 bps to +3 bps from July 2010 to July 2013. The average is closer to +4 bps, though, if all of 2010 is excluded. Nevertheless, secondary trading levels for RRBs have experienced large excursions away from this long-run average level, and these excursions have had a tendency to persist for a number of weeks.

We view RRB spreads trading at +4 bps or more to benchmark credit card ABS as representing better relative value. In general, RRBs involve less credit risk than credit card ABS, although the smaller size of the RRB sector, wider principal payment windows and somewhat less transparency due to the regulatory nature of the collateral require some spread concession, in our view.

Structural Considerations

Unlike most asset-backed securities, rate-reduction bond ABS are characterized primarily by their legal and regulatory framework. To a large extent, the credit analysis of the underlying obligors, which are the ratepayers in the utility's service area, is a secondary consideration, in our view. The securitization structure of most RRBs is relatively straightforward. The utility would transfer its ownership of the utility charges to a bankruptcy-remote special purpose vehicle (SPV) that would issue the ABS to investors.

The ABS may be issued as a single pass-through security, or there may be several tranches of bonds issued that pay in sequential order. Principal is repaid according to a scheduled amortization that would be consistent with the forecast for power usage and cash flows. Interest payments may be made quarterly or semiannually. The cash flows are stressed in the rating process to determine how much forecast error the deal can withstand and still make payments to investors in a timely manner.

Credit enhancement is provided, in most cases, by a small amount (generally 0.5%–1%) of overcollateralization, reserve fund, or some form of capital account to provide liquidity in the event of short-run cash flow shortfalls. However, the primary form of credit enhancement is a regulatory-mandated "true-up mechanism" that can adjust the amount of the utility tariff charged to the customer. The robust legal and regulatory nature of the true-up mechanism, along with the fundamental character of power usage, allows for the relatively low level of internal credit enhancement in RRBs.

A Regulatory Future Flow Receivable

One of the key considerations in the RRB sector is that the asset securitized is a future flow rather than an existing loan or receivable. The utility tariff is established by a law passed by a state legislature and further put into practice by a financing order from the state's utility regulators. The charge added to the utility bill is established as a property right of the utility that can be transferred or sold and pledged as a security interest similar to other kinds of receivables securitized in the ABS market.

In the event that a utility is subject to a merger or files for bankruptcy, the order to collect the utility tariff remains in place with the successor utility. This provision helps avoid any disruption in billing and collections of the tariff and, therefore, for bondholders. Although the utility has a target amount to be raised from the utility tariff, the periodic amount of the cash flows can only be estimated at origination based on the expectations for usage. Actual utility usage and cash flows may deviate from the forecast amount.

Irrevocability and State Pledge

One of the key legal features of an RRB is that the utility tariff is *irrevocable*. As noted above, the receivables have been created by legal and regulatory actions and are collected over time based on electricity usage. The receivable does not already exist, unlike an auto loan or lease. There is a risk that a future legislature or regulator could act to alter or rescind the utility tariff. In order to mitigate this risk, there is irrevocability language inserted in the legislation to prevent the impairment of the value of the utility tariff without adequate compensation.

The RRBs are not obligations of the state, nor do they carry the full faith and credit of any government or agency. However, the legislation creating the utility tariffs will generally contain a *state pledge* not to limit, alter, or impair the property rights created. There may be challenges from other constituencies over time that oppose the creation of the utility tariff, either through new legislation or ballot initiatives. The state pledges not to make any changes to the law or regulatory environment until the bonds are paid in full to mitigate the potential political risks to an asset created through the political process.

Non-bypassability
The utility receivables generated would be collected based on a customer's usage and the fact that the customer is connected to the utility's deliver system. This delivery, or network, charge should not be avoided, or bypassed, just because a customer contracts with another generator of the power. The utility can collect the charges from existing customers as well as future customers from its service area.

In some states or markets, third-party energy providers may be allowed by regulators to bill customers directly. In these cases, the tariff is collected by the third-party provider and the charges are passed along to the utility. Customers can reduce their exposure to the charge by using less power, or by disconnecting from the service grid entirely. However, they should not be able to avoid paying the utility tariff as long as they are connected to the utility's network.

Bankruptcy Remoteness
Like other types of securitized assets , the utility tariff is established as a property right that can be sold or transferred to another party. The right to the future receivables is sold by the utility to a bankruptcy-remote special purpose vehicle (SPV), which is the issuer of the ABS. This "true sale" of the receivables to the SPV should isolate the payments from being consolidated with the utility in the event that it files for bankruptcy.

The transfer of the utility tariff is a sale, not a pledge or a secured financing. Legal counsel would normally provide a nonconsolidation opinion that a bankruptcy court would not consolidate the SPV with the bankruptcy estate of the utility. This bankruptcy-remote nature of ABS is the standard in the market to provide a separation between the ABS and any potential bankruptcy of the seller/servicer.

True-Up Mechanism
The key credit enhancement feature of RRB deals is the true-up mechanism. This procedure allows the utility tariff to be adjusted, either up or down, in the event that tariff collections are significantly different than what would be needed to meet the scheduled amortization of the bonds, including any fees and replacement of credit-enhancement reserves. The true-up can occur at least annually, as needed, but some deals allow for more frequent changes in the charges, such as semiannually. Regulators cannot alter the true-up, nor do they need to approve its use.

The strength of the legal and structural safeguards, along with the robust nature of the protection provided by the true-up mechanism, affords substantial credit enhancement for ABS investors. Indeed, Fitch Ratings indicated in its "Outlook and Performance Review for U.S. Utility Tariff ABS" (Feb. 1, 2013) that several RRB transactions have successfully used their true-up mechanisms to offset revenue shortfalls.

Weather-related variations in collections have occurred due to system outages from hurricane damage and warmer-than-normal winter temperatures. In addition, six transactions suffered shortfalls from 2008–2010 due to the recession's effects on customers reducing their power usage. Some were residential customers trying to save on monthly expenses, wheras others were commercial and industrial customers cutting production or going out of business, according to the Fitch Ratings report.

Credit Analysis

When rating a new RRB deal and determining the potential variability in cash flows, the rating agencies typically perform a credit analysis of the utility and the service area that is subject to the utility tariff. The major areas of inquiry include the energy usage level and trends of the customer base and its composition, the size of the tariff in relation to the entire utility bill, customer

delinquency and loss trends, national and local economic factors affecting energy usage, and seasonality due to weather conditions.

The rating agencies incorporate various stresses in their cash-flow models to take account of forecast errors or variations in usage based on changing credit conditions. Although the credit analysis of the utility, its customer base and servicer area are important, they tend to take a position of secondary importance, in our opinion, to the legal and regulatory structure of the utility tariffs and the ability to true-up the charges when collections vary from the forecast.

Customer Base

A utility's customer base typically can be divided into four segments: Residential, Commercial, Industrial, and Government. The most important segments tend to be Residential and Commercial/Industrial. Most service areas have a low concentration of government obligor exposure, although some areas may include state or federal government offices or military bases.

Residential customers offer the most diversification because each household is just a small portion of the overall pool of residential customers. They should also represent the most stable cash flows because households (and smaller commercial customers) tend to be less sensitive to economic cycles in their power usage. It could be assumed that new residents would replace those who move away, providing additional long-run stability. However, reduced demand for housing during recessions may present a potential risk to power usage and the generation of cash flows backing the RRBs.

Commercial and industrial customers are likely to be more concentrated as a group, and the size of individual firms could mean an increase in risk to cash flows in the event of reduced usage from less production, self-generation of power, or the possibility of ceasing business in that service area. For that reason, the rating agencies analyze the power-usage patterns of areas with cyclical industries and emphasize periods of recession in their analysis. This process provides an estimate of the potential variability of cash flows from the amortization schedule of the bonds.

Usage Patterns and Seasonality

Residential and smaller commercial customers normally show greater changes in power usage due to changes in weather patterns. An unusually hot summer or colder-than-normal winter would likely drive power demand higher, and these seasonal patterns tend to be more important for short-run variations in power usage. In the long run, conservation measures, increased use of energy-efficient appliances and technological advances are more likely to play a role in energy-usage patterns. Larger commercial and industrial customers would also be affected by these weather-related and technological advances, although in the near term, they tend to be affected more by fluctuations in economic activity.

Size of Utility Tariff

The rating agencies also consider the size of the utility tariff relative to the overall customer bill. This relationship becomes more important if the true-up mechanism must be used to increase the charge due to variability in the receivables generated. An increase in the overall price of power could be large enough to reduce demand for power if the tariff is a relatively large portion of the bill. This incentive may become particularly intense for larger industrial customers who have more energy alternatives.

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Additional information is available on request.

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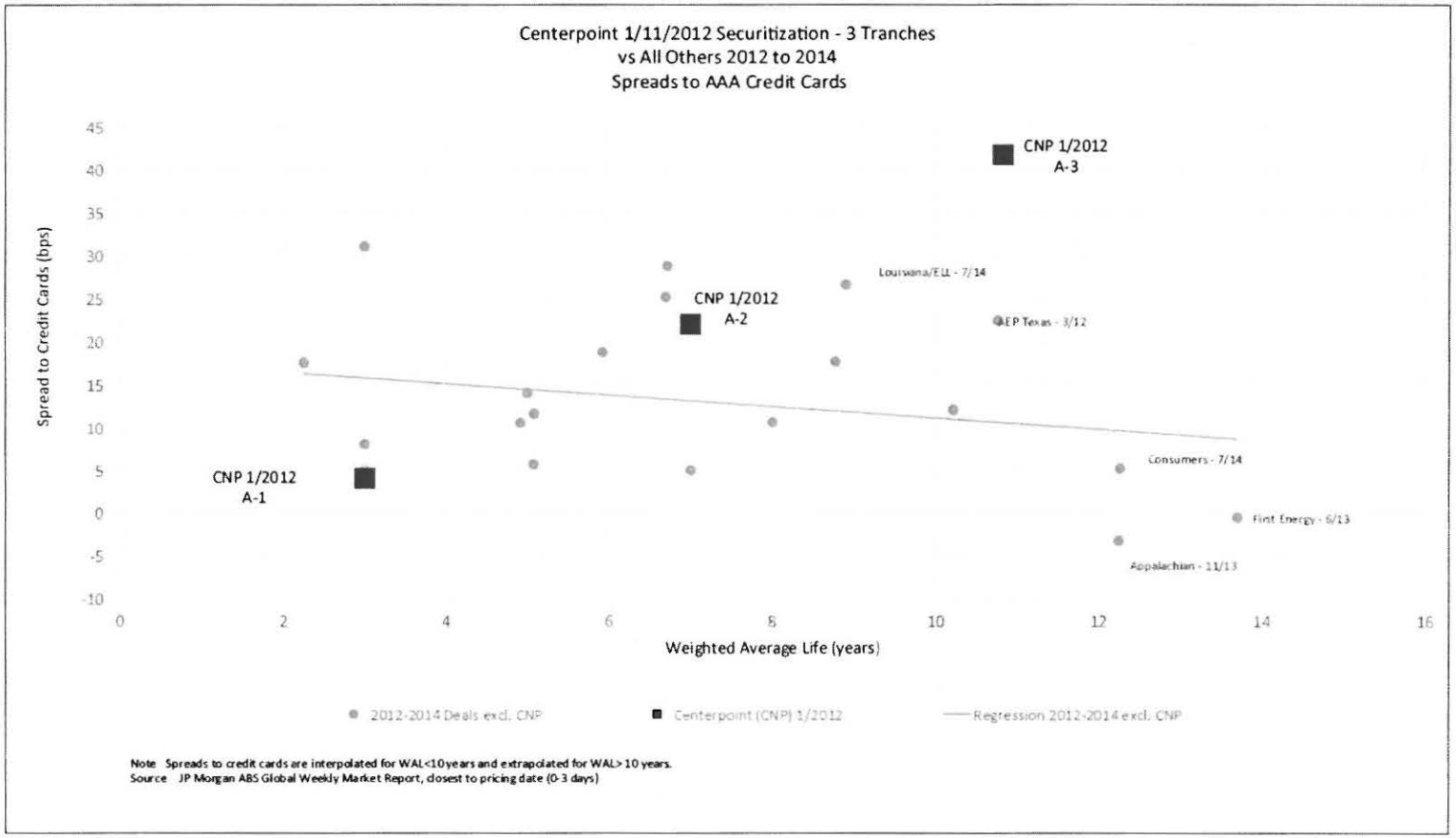

Docket No. 150171-EI
Witness: Sutherland
Exhibit No. ____ (PS-7)
Centerpoint 1/11/2012 Securitization
Page 1 of 1

Presentation to:

SABER PARTNERS, LLC
ADVISORS & INVESTORS

TEXAS TRANSITION BOND ANALYSIS

September 12, 2003

Docket No. 150171-EI
Witness: Sutherland
Exhibit No. ____ (PS-7a)
2003 Citigroup Study
Page 1 of 8

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Regression Analysis of Texas Transition Bond Spreads

SPREAD TO SWAPS REGRESSION LINE (USED IN SAVINGS ANALYSIS): Y = 2.9021X + 5.7598

Reliant Energy 2001-1

	A-1	A-2	A-3	A-4
Size (in millions)	$115.0	$118.0	$130.0	$385.9
WAL	2.71	5.29	7.19	10.29
Implied Y Value	14	21	27	36
Actual Pricing	16	17	22	37
Difference in bps	**(2)**	**4**	**5**	**(1)**

Central Power and Light 2002-1

	A-1	A-2	A-3	A-4	A-5
Size	$129.0	$154.5	$107.1	$214.9	$191.9
WAL	1.90	4.70	7.30	10.00	13.00
Implied Y Value	11	19	27	35	43
Actual Pricing	7	11	14	24	34
Difference in bps	**4**	**8**	**13**	**11**	**9**

Oncor Electric Delivery Transition Bond 2003-1

	A-1	A-2	A-3	A-4
Size	$104.0	$122.0	$130.0	$144.0
WAL	2.00	5.00	8.00	10.83
Implied Y Value	12	20	29	37
Actual Pricing	7	7	16	19
Difference in bps	**5**	**13**	**13**	**18**

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Economic Savings Captured by Texas Transition Bonds

Reliant Energy 2001-1

Tranche	Size	WAL	Coupon	Bp Difference	Implied Coupon
A-1	115.0	2.71	3.84%	(2)	3.82%
A-2	118.0	5.29	4.76%	4	4.80%
A-3	130.0	7.19	5.16%	5	5.21%
A-4	385.9	10.29	5.63%	(1)	5.62%
	$748.9	7.78			

- **Savings: $213,045**
- Bps: 0.37/year

Central Power and Light 2002-1

Tranche	Size	WAL	Coupon	Bps Difference	Implied Coupon
A-1	129.0	1.90	3.54%	4	3.58%
A-2	154.5	4.70	5.01%	8	5.10%
A-3	107.1	7.30	5.56%	13	5.69%
A-4	214.9	10.00	5.96%	11	6.07%
A-5	191.9	13.00	6.25%	9	6.34%
	$797.3	8.02			

- **Savings: $3,949,077**
- Bps: 6.18/year

Oncor Electric Delivery Transition Bond 2003-1

Tranche	Size	WAL	Coupon	Bps Difference	Implied Coupon
A-1	104.0	2.00	2.26%	5	2.31%
A-2	122.0	5.00	4.03%	13	4.16%
A-3	130.0	8.00	4.95%	13	5.08%
A-4	144.0	10.83	5.42%	18	5.60%
	$500.0	6.85			

- **Savings: $3,371,354**
- Bps: 9.84/year

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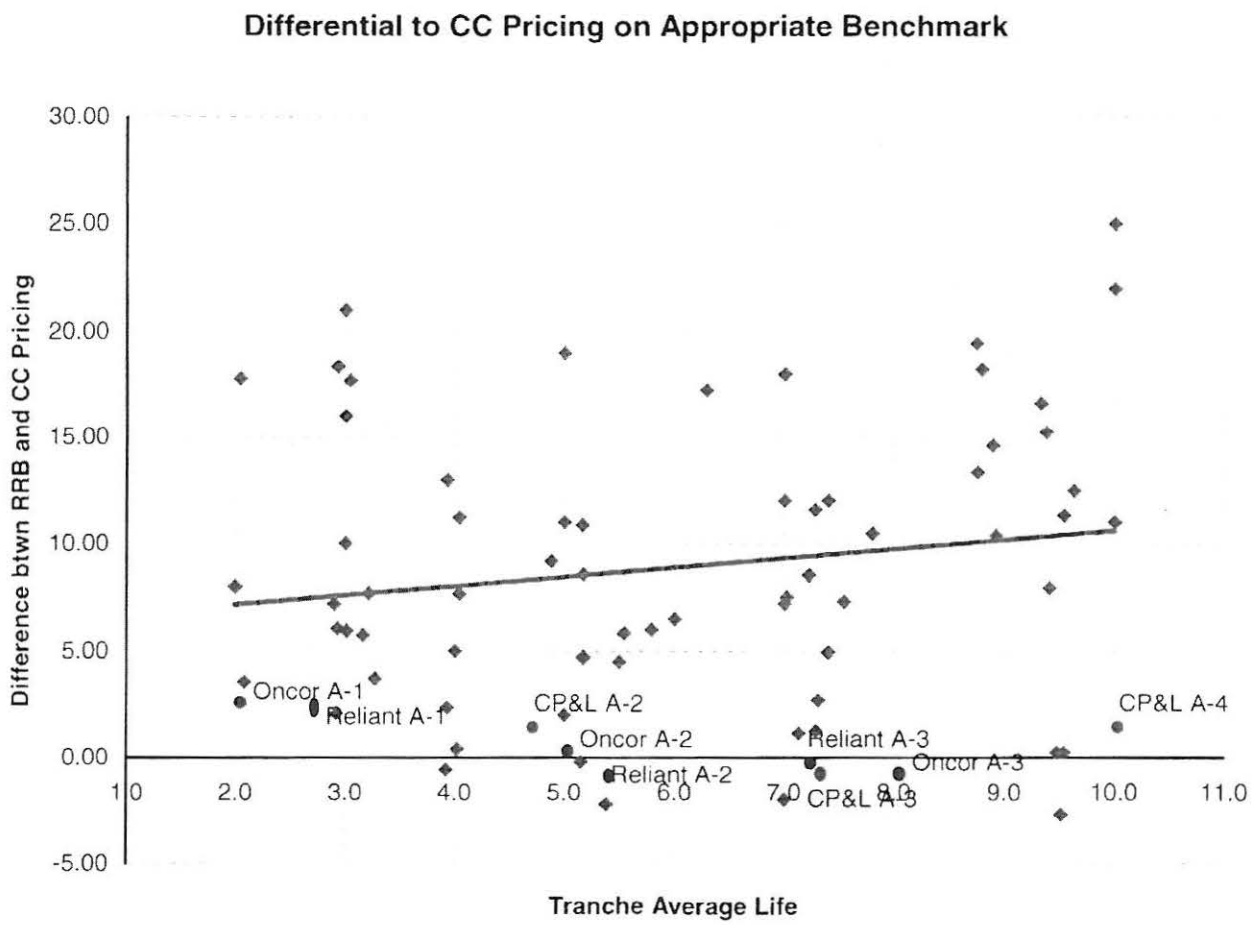
Pricing Differential to Credit Card Spreads: Texas Advantage



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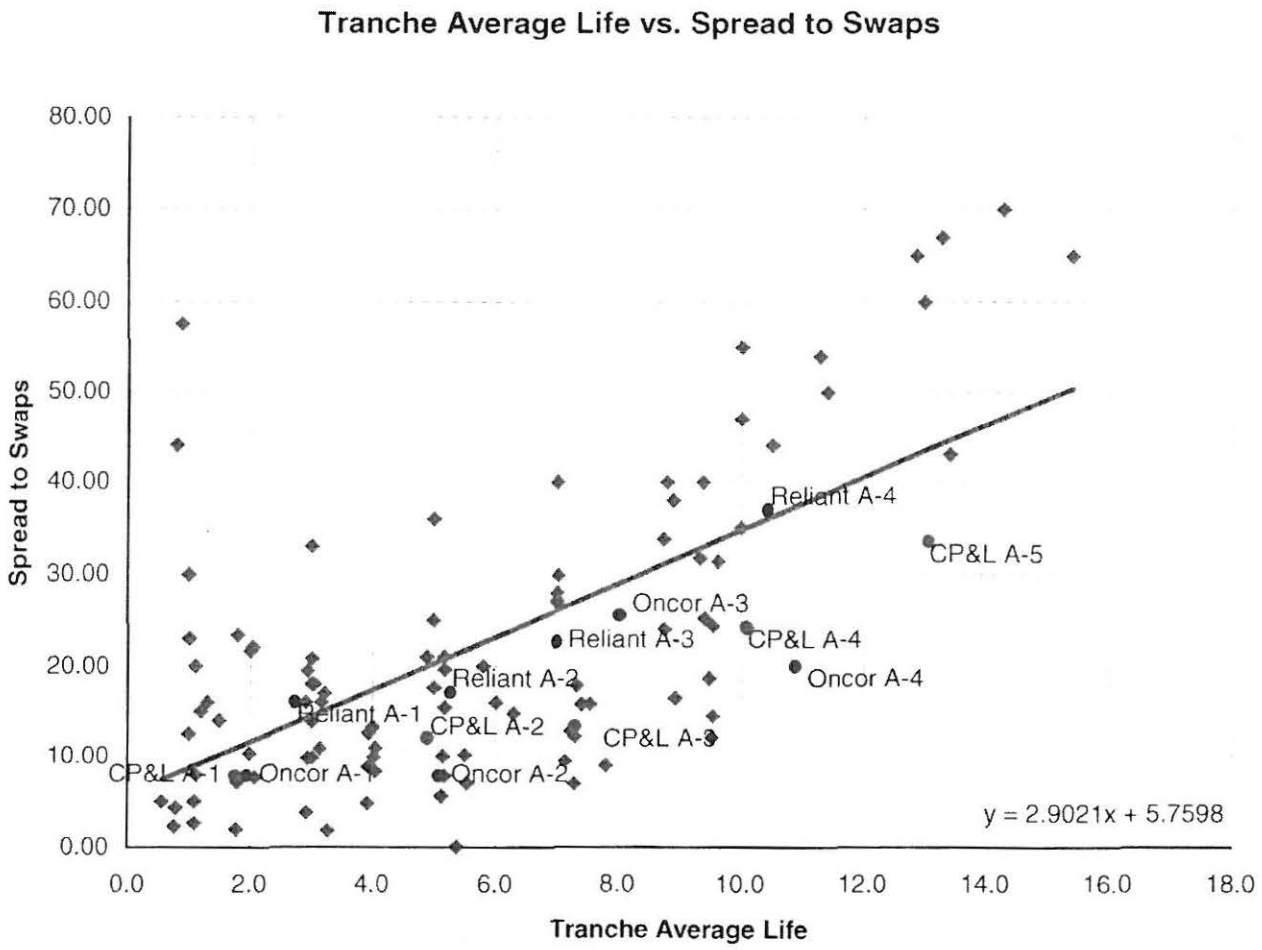
Regression Analysis: Spread to Swaps



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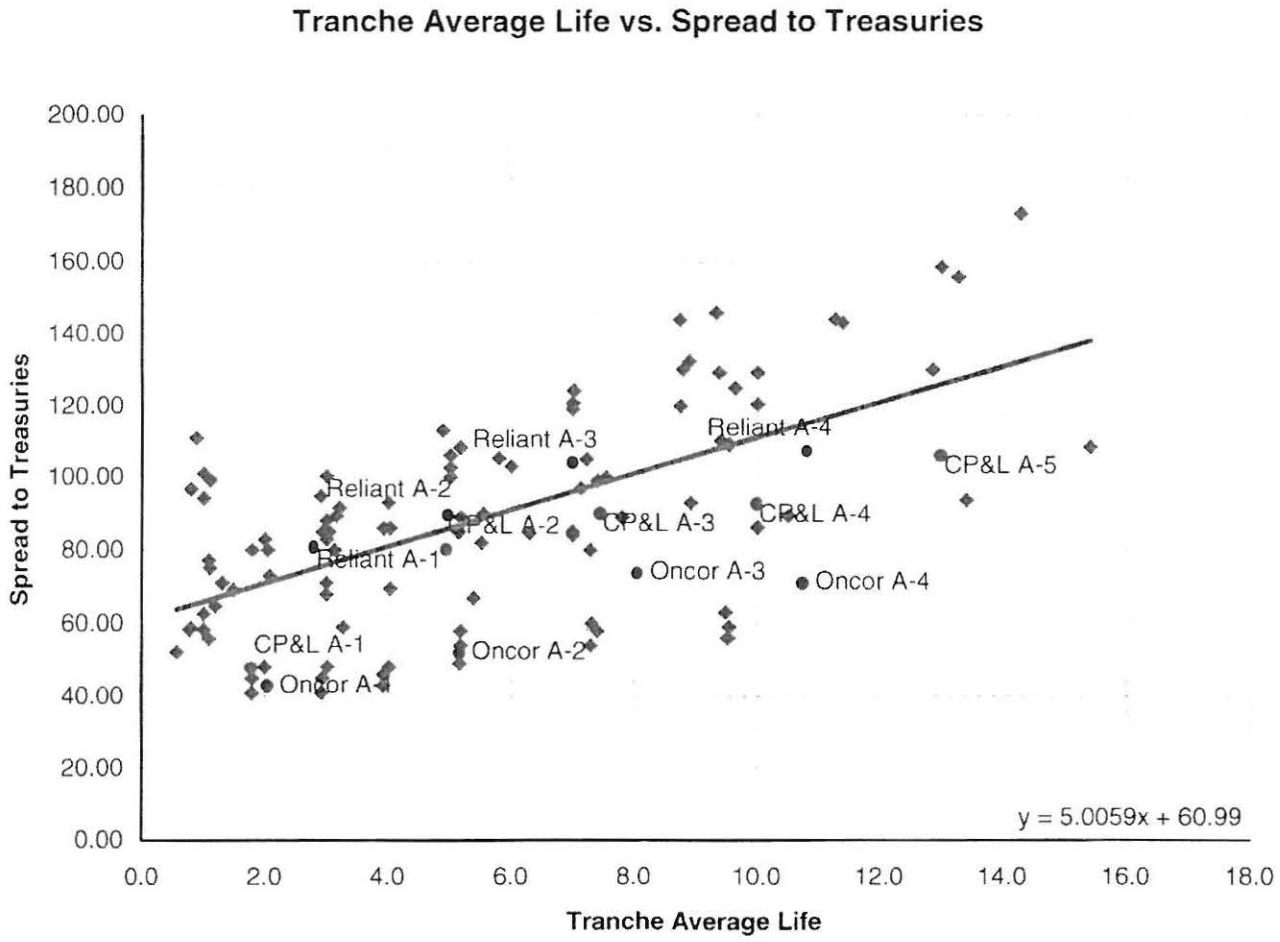
2003 Citigroup Study
Page 5 of 8

Regression Analysis: Spread to Treasuries



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Methodology

SPREAD TO SWAPS (USED IN SAVINGS ANALYSIS)

- Includes stranded cost transactions completed from November 1997 to year-to-date.
- Transactions priced against Treasuries (prior to April 2000) were converted to spreads to Swaps using the following formula:

  Spread to Swaps = Spread to Treasury + Treasury Yield - Swap Rate

- For all transactions, except for Texas RRB transactions, swap pricing was plotted on Y-axis against average life (X-axis) by tranche.
- Regression line generated calculates a representative spread at a given average life.
- Texas transactions are specifically identified to underscore whether they fall below the regression line.

SPREAD TO TREASURIES

- Includes stranded cost transactions completed from November 1997 to year-to-date.
- Transactions priced against Swaps (post April 2000) were converted to spreads to Treasuries using the following formula:

  Spread to Treasury = Spread to Swaps + Swap Rate - Treasury Yield

- For all transactions, except for Texas RRB transactions, treasury pricing was plotted on Y-axis against average life (X-axis) by tranche.
- Regression line generated calculates a representative spread at a given average life.
- Texas transactions are specifically identified to underscore whether they fall below the regression line.

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Methodology *(Continued)*

DIFFERENTIAL TO GENERIC CREDIT CARD SPREADS

- Includes stranded cost transactions completed from November 1997 to year-to-date. Transactions priced to Treasuries were compared to generic credit card spreads also priced to Treasuries. Transactions priced to Swaps were compared to generic credit card spreads also priced to Swaps.
- Plotted the differential between credit card spreads and stranded cost transaction spreads (other than Texas RRB transactions) on the Y-axis against the average life (X-axis) by tranche.
- Tranches with average life less than 2 years and over 10 years were not used in this analysis due to the lack of reliable credit card spreads for those tails.
- Regression line generated calculates a representative spread differential at a given average life.

SAVINGS CALCULATIONS

- By generating spread to Swaps regressions lines, we were able to find a representative spread at a given average life.
- By using such spread, we calculated implied coupon (by tranche) for Texas transactions.
- Savings were calculated by subtracting PV of actual cash flows from PV of cash flows built based on implied coupons.

  PV actual = PV (actual weighted average yield, actual cash flows)

  PV implied = PV (actual weighted average yield, implied cash flows)
- Savings in bps per annum were calculated by dividing savings by deal size by weighted average life.

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X-Original-To: jfichera@saberpartners.com
Delivered-To: jfichera@saberpartners.com
Subject: TX savings summary (revised)
Date: Fri, 19 Sep 2003 17:44:00 -0400
X-MS-Has-Attach: yes
X-MS-TNEF-Correlator:
Thread-Topic: condensed tx summary
Thread-Index:
AcN+zmsexn2mV2xHRPiWg+ijmPYVMAAFJHRgAAMMvGAAAZ4J8A==
From: "Donskaya, Marina [FI]" <marina.donskaya@citigroup.com>
To: "Joseph Fichera (E-mail)" <jfichera@saberpartners.com>
Cc: "Humphrey, Paul G [FI]" <paul.g.humphrey@citigroup.com>,
"Hiller, Howard L [FI]" <howard.l.hiller@citigroup.com>,
"Mclaughlin, Ish [FI]" <ish.mclaughlin@citigroup.com>,
"Lou, Wendy [FI]" <wendy.lou@citigroup.com>
X-Scanned-By: MIMEDefang 2.36

Joe, please use this version (instead of the one sent at 5 pm) as we revised cc savings per year (excluded tranches past 10 years) and added a paragraph on methodology used.

-----Original Message-----

Joe,

As discussed, we've revised our analysis to use actual coupons (instead of implied coupons) as a discount rate. I also wanted to note that we used average life (instead of duration) when calculating savings per year. Finally, we included both savings against other RRBs and against credit cards in the attached file (both including and excluding WMECO and PSNH).

In our methodology, we looked at the average spread to swaps for all transition bonds other than Texas deals in different average life buckets. The savings for each Texas deals are based on the difference between the average spread to swap and the Texas deal's spread to swap. The bps savings was then used to increase the coupon of the Texas bonds ("implied coupon") and calculate a new set of interest payments. The difference between the new interest payments and the original interest payments yield the dollar savings. These savings were then PV'ed back using the actual coupon as the discount rate.

The analysis looking at credit card differentials used the same methodology. Except, instead of looking at the average spread to swap, we looked at the average difference in spread to credit cards.

To summarize, the difference in total savings vs other transition bonds (excludes WMECO and PSNH) are as follows:

Reliant: $3,773,775 or 6.5 bps/yr (nominal), $2,955,295 or 5.1 bps/yr (PV)

CPL: $12,951,663 or 20.3 bps/yr (nominal), $9,748,976 or 15.3 bps/yr (PV)
Oncor: $6,629,694 or 19.4 bps/yr (nominal), $5,278,669 or 15.4 bps/yr (PV)
Total: 23,355,132 (nominal), 17,982,941 (PV)

The difference in total savings vs CC differentials were (excluding any tranches over 10 years):

Reliant: $2,009,392 or 10.8 bps/yr (nominal), $1,717,547 or 9.2 bps/yr (PV)
CPL: $5,167,226 or 13.2 bps/yr (nominal), $4,133,597 or 10.6 bps/yr (PV)
Oncor: $2,018,929 or 10.9 bps/yr (nominal), $1,725,982 or 9.3 bps/yr (PV)
Total: 9,195,546 (nominal), 7,577,127 (PV)

The savings, using credit card methodology, are comparable to the savings on the transition bonds as calculated using the average spread to swaps for all transition bonds for the tranches 10 yr and under.

Attached is an updated version of our analysis.

Please let us know if you have any additional questions.

Thank you.

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SAVINGS ANALYSIS VS. AVERAGE RRB PRICING

Reliant

			Excludes WMECO and PSNH		Includes WMECO and PSNH	
	Amount (in MM)	WAL	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV
A1	115.00	2.71	$93,434.51	$87,051.59	$93,434.51	$87,051.59
A2	118.00	5.29	$550,673.49	$479,878.49	$734,231.32	$639,837.99
A3	130.00	7.19	$747,819.79	$614,359.56	$1,215,207.16	$998,334.29
A4	385.90	10.29	2,381,847.26	$1,774,005.84	2,381,847.26	$1,774,005.84
Total	**748.90**	**7.80**	**$3,773,775.05**	**$2,955,295.48**	**$4,424,720.25**	**$3,499,229.71**
$ Savings per year:			**$483,812.88**	**$378,880.56**	**$567,266.63**	**$448,615.08**
Savings in bps per year:			**6.46**	**5.06**	**7.57**	**5.99**

CP&L

			Excludes WMECO and PSNH		Includes WMECO and PSNH	
	Amount (in MM)	WAL	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV
A1	128.95	1.90	297,435.44	$287,022.66	$297,435.44	$287,022.66
A2	154.51	4.70	1,109,556.19	$993,018.42	$1,313,948.12	$1,175,942.87
A3	107.09	7.25	$1,241,870.88	$1,032,507.52	$1,629,955.53	$1,355,166.11
A4	214.93	10.00	$4,082,635.27	$3,110,906.97	$4,082,635.27	$3,110,906.97
A5	191.86	13.00	6,220,165.30	$4,325,520.62	6,220,165.30	$4,325,520.62
Total	**797.33**	**8.02**	**$12,951,663.08**	**$9,748,976.19**	**$13,544,139.65**	**$10,254,559.23**
$ Savings per year:			**$1,615,830.24**	**$1,216,267.78**	**$1,689,746.74**	**$1,279,343.57**
Savings in bps:			**20.27**	**15.25**	**21.19**	**16.05**

Oncor

			Excludes WMECO and PSNH		Includes WMECO and PSNH	
	Amount (in MM)	WAL	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV
A1	103.00	2.00	$247,108.47	$239,226.15	$247,108.47	$239,226.15
A2	122.00	5.00	$1,158,120.15	$1,035,695.99	$1,340,981.22	$1,199,226.94
A3	130.00	8.00	$1,455,157.29	$1,186,576.28	$1,974,856.33	$1,610,353.53
A4	145.00	10.83	$3,769,308.37	$2,817,170.86	$3,769,308.37	$2,817,170.86
Total	**500.00**	**6.85**	**$6,629,694.28**	**$5,278,669.28**	**$7,332,254.39**	**$5,865,977.47**
$ Savings per year:			**$967,457.25**	**$770,305.03**	**$1,069,980.36**	**$856,009.67**
Savings in bps:			**19.35**	**15.41**	**21.40**	**17.12**

Total

	Excludes WMECO and PSNH		Includes WMECO and PSNH	
	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV
Total Dollar Savings all Deals	$23,355,132.41	$17,982,940.95	$25,301,114.30	$19,619,766.41
Weighted Average $ Savings	$8,047,873.13	$6,170,236.69	$8,688,647.69	$6,709,825.53
Weighted Average $ Savings per Year	$1,043,093.32	$800,821.54	$1,127,490.42	$871,863.75
Weighted Average Savings in bps per Year	14.99	11.56	16.26	12.63

Docket No. 150171-EI
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Citigroup Clarification
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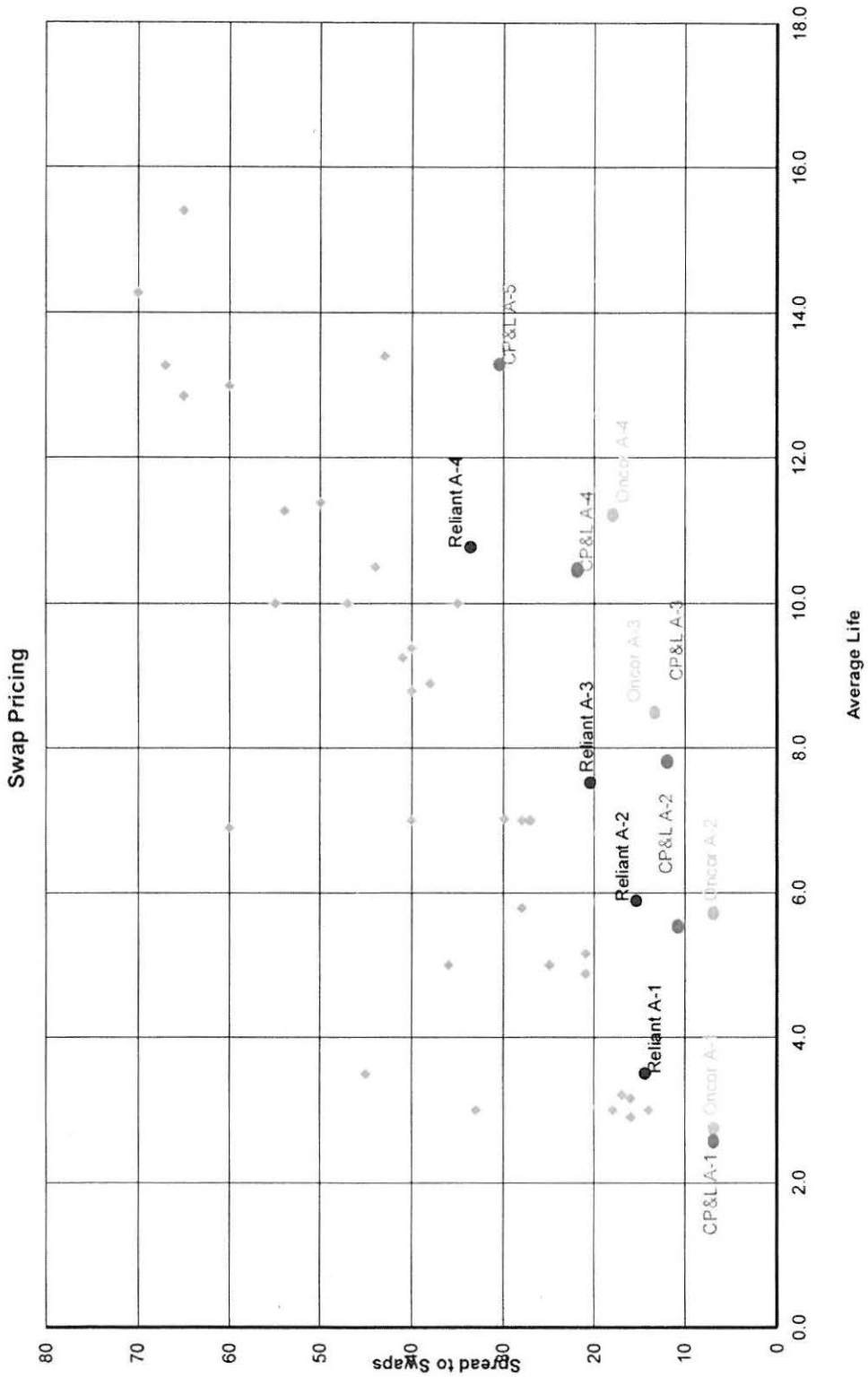
Swap Pricing
Spread to Swaps
Average Life
80
70
60
50
40
30
20
10
0
0.0
2.0
4.0
6.0
8.0
10.0
12.0
14.0
16.0
18.0
Reliant A-4
Reliant A-3
Reliant A-2
Reliant A-1
CP&L A-5
CP&L A-4
CP&L A-3
CP&L A-2
CP&L A-1
Oncor A-4
Oncor A-3
Oncor A-2
Oncor A-1

SAVINGS ANALYSIS VS. CREDIT CARD PRICING DIFFERENTIALS [1]

Reliant

			Excludes WMECO and PSNH		Includes WMECO and PSNH	
	Amount (in MM)	WAL	Vs. CC Spread Differential Nominal	Vs. CC Spread Differential PV	Vs. CC Spread Differential Nominal	Vs. CC Spread Differential PV
A1	115.00	2.71	$218,013.85	$203,120.39	$218,013.85	$203,120 39
A2	118.00	5.29	$856,603.21	$746,477.65	$1,101,346.99	$959,756 98
A3	130.00	7.19	$934,774.74	$767,949.45	$1,402,162.11	$1,151,924.18
A4	385.90	10.29	NA	NA	NA	NA
Total	748.90	7.80	$2,009,391.80	$1,717,547.49	$2,721,522.95	$2,314,801 55
$ Savings per year			**$392,459.34**	**$335,458.49**	**$531,547.45**	**$452,109.68**
Savings in bps per year			**10.81**	**9.24**	**14.64**	**12.45**

CP&L

			Excludes WMECO and PSNH		Includes WMECO and PSNH	
	Amount (in MM)	WAL	Vs. CC Spread Differential Nominal	Vs. CC Spread Differential PV	Vs. CC Spread Differential Nominal	Vs. CC Spread Differential PV
A1	128.95	1.90	$223,076.58	$215,266.99	$223,076.58	$215,266 99
A2	154.51	4.70	$729,971.18	$653,301.59	$1,021,959.65	$914,622 23
A3	107.09	7.25	$776,169.30	$645,317.20	$1,241,870.88	$1,032,507 52
A4	214.93	10.00	$3,438,008.65	$2,619,711.13	$3,438,008.65	$2,619,711.13
A5	191.86	13.00	NA	NA	NA	NA
Total	797.33	8.02	$5,167,225.70	$4,133,596.92	$5,924,915.75	$4,782,107 87
$ Savings per year			**$801,120.26**	**$640,867.74**	**$918,591.59**	**$741,412.07**
Savings in bps			**13.23**	**10.58**	**15.17**	**12.25**

Oncor

			Excludes WMECO and PSNH		Includes WMECO and PSNH	
	Amount (in MM)	WAL	Vs. CC Spread Differential Nominal	Vs. CC Spread Differential PV	Vs. CC Spread Differential Nominal	Vs. CC Spread Differential PV
A1	103.00	2.00	$144,146.61	$139,548.59	$144,146.61	$139,548 59
A2	122.00	5.00	$731,444.30	$654,123.79	$975,259.07	$872,165.05
A3	130.00	8.00	$1,143,337.87	$932,309.94	$1,663,036.91	$1,356,087.18
A4	145.00	10.83	NA	NA	NA	NA
Total	500.00	6.85	$2,018,928.78	$1,725,982.31	$2,782,442.58	$2,367,800 81
$ Savings per year			**$386,028.45**	**$330,015.74**	**$532,015.79**	**$452,734.38**
Savings in bps			**10.87**	**9.30**	**14.99**	**12.75**

Total

	Excludes WMECO and PSNH		Includes WMECO and PSNH	
	Vs. CC Spread Differential Nominal	Vs. CC Spread Differential PV	Vs. CC Spread Differential Nominal	Vs. CC Spread Differential PV
Total Dollar Savings all Deals	$9,195,546.29	$7,577,126.72	$11,428,881.29	$9,464,710.24
Weighted Average $ Savings	$3,456,624.90	$2,825,126.55	$4,203,381.28	$3,457,783.74
Weighted Average $ Savings per Year	$577,692.33	$473,720.00	$708,741.60	$584,629.97
Weighted Average Savings in bps per Year	11.94	9.87	14.98	12.44

(1) Tranches beyond 10 years did not have a comparable credit card pricing.

Docket No. 150171-EI
Witness: Sutherland
Exhibit No. ____ (PS-8)
Citigroup Clarification
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CenterPoint Energy Houston Electric (CEHE) Securitization

On Jan. 29, 2008, CEHE priced one of the most successful asset-backed securities (ABS) offering in many months, attracting both traditional asset-backed buyers and corporate "crossover" investors

CenterPoint Energy Transition Bond Company III, LLC (CEHE III)

Tranche	Balance	Coupon	Yield	Price	WAL	Spread to Swaps	Window (yrs)
A-1	$301,427,000	4.192%	4.192%	99.96161%	5.00	S + 64 bp	Feb-2009 : Feb-2017
A-2	187,045,000	5.234%	5.234%	99.94074%	10.52	S + 94 bp	Feb-2017 : Feb-2020
	$488,472,000		4.591%		**7.11**	Time Weighted Yield:	4.782%

Overview of CEHE III Offering

- The credit quality of utility securitization bonds came into sharp focus in today's environment of volatile credit markets and a weakening consumer
- We estimate that each tranche of the CEHE III offering priced approximately 15-25 bp inside of like-maturity credit card securities
- In fact, Citi priced a 10-year credit card transaction at +118 bp on Jan. 31, a premium of 24 bp to CEHE III's A-2 tranche

Precedent Texas Securitizations

Date	Utility	Size ($mm)	WAL (yrs)	Time-Weighted Yield (%)
01/29/08	CenterPoint Energy Houston Electric III	$488.472	7.11	4.782%
06/22/07	Entergy Gulf States	$329.500	8.05	5.834%
10/04/06	AEP Texas Central	$1,739.700	8.44	5.192%
12/06/05	CenterPoint Energy Houston Electric II	$1,851.000	8.26	5.177%
05/28/04	Oncor Electric Delivery II	$789.777	6.83	4.913%
08/14/03	Oncor Electric Delivery	$500.000	6.85	4.844%
01/31/02	Central Power & Light	$797.335	8.02	5.970%
10/17/01	Reliant Energy	$748.897	7.60	5.233%

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Press on CEHE III Offering: IFR Article and PUCT Release

ABS MARKET: Investors Take Shine to CNP's Transition Bonds New York, January 30.

CenterPoint's (CNP) $488 million offering of utility transition bonds was granted a hearty reception by investors. A simple two maturity structure in five-year and 10-1/2 yr tenors proved to be the right formula for the Houston-based energy company.

Citigroup and Credit Suisse teamed up as joint bookrunners with Morgan Stanley as a non-books co-lead. The $300m class A-1 opened with official guidance of Swaps plus high 60s BP to Swaps+70bp and the $188.3m class A-2 began marketing at Swaps+high 90s to plus 100bp. Whisper chatter prior to the guidance announcement was +75bp for the 5s and +100bp on the longer piece.

With the book building in a short period to several times oversubscribed, the shorter bond priced at Swaps+64bp to yield 4.192% and the 10+YR stamped at interpolated Swaps+94bp for a 5.234% yield.

PUCT News Release: Thursday, January 31, 2008

Lower Costs for CenterPoint area Customers

Securitization Reduces Transition to Competition Costs

Electric customers in the CenterPoint Energy service area in and around Houston will *save more than $109 million in costs* over the next 12 years as a result of the lowest securitized bond rates since retail electric competition began in Texas.

"Securitization will reduce electricity costs by millions of dollars in the CenterPoint service area," said PUC Chairman Barry Smitherman. "These savings are possible through the efforts of Gov. Rick Perry and the leadership of the Texas Legislature in making necessary changes in the law to help electric customers."

House Bill 624 approved by the 80th Texas legislature in 2007 extended securitization to competitive transition costs beyond limits imposed in the original 1999 Texas Electric restructuring law. The law allows securitization only if there is a benefit for customers.

This week's pricing of approximately $488 million in CenterPoint securitization bonds resulted in very favorable interest rates of 4.19 percent for $300 million in five-year bonds and 5.23 percent for $188 million in ten-year bonds. This is a substantial reduction from what would have been an 8.06 percent interest rate without securitization. CenterPoint is expected to close on these bonds in a few weeks.

Securitized debt provides funding at a lower cost than traditional utility funding because of the risk reduction that securitization gives to bondholders.

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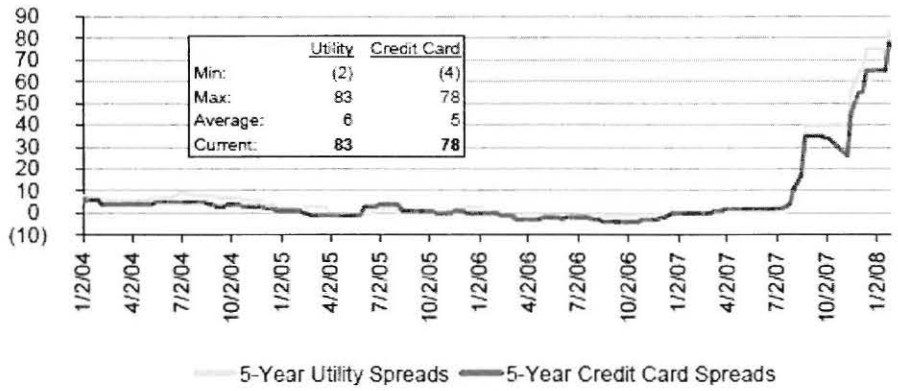
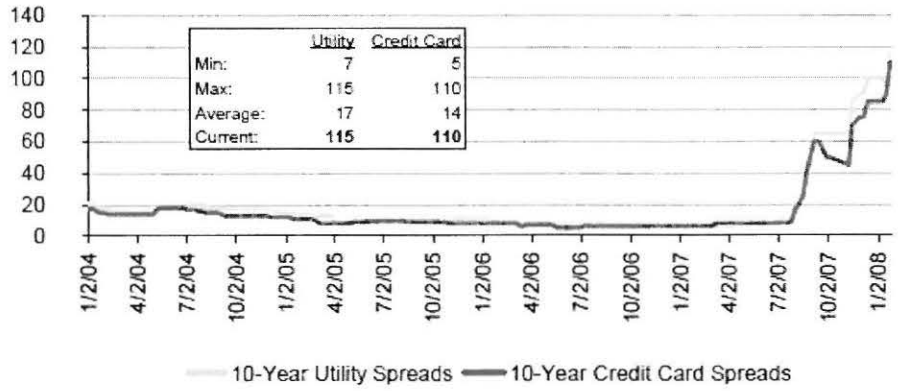
ABS Market Spread Monitor: Cards and "Stranded"

5-Year AAA ABS Spreads



10-Year AAA ABS Spreads



Citi Bond Market Roundup: Strategy — Data Appendix, January 25, 2008

		24 Jan 08 Spread (bp)
Triple-A		
2-Yr	Auto	75
	Credit card	68
	Equipment	85
	Stranded Assets	63
3-Yr	Auto	100
	Credit card	68
	Equipment	110
	Stranded Assets	73
5-Yr	Credit card	78
	Stranded Assets	83
7-Yr	Credit card	90
	Stranded Assets	95
10-Yr	Credit card	110
	Stranded Assets	115

Mat.	Sector		25 Jan	
1 Yr.	Fin.:	AA	20	
2 Yrs	Fin.:	AA	150	
3 Yrs	Fin.:	AA	105	
5 Yrs	Ind.:	AA	135	S+65 bp
	Ind.:	AA	125	
	Fin.:	A	375	
10 Yrs.[9]	Util.:	AAA	135	
		AA	145	S+85 bp
		A	150	
		BBB	190	
	Ind.:	AAA	135	
		AA	155	
		A	175	
		BBB	240	
	Fin.:	AAA	180	
		AA	220	
		A	425	

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Overview of Texas Securitization Framework

Texas has seen six previous transition bond offerings ($6.43 billion) and one storm recovery bond offering ($329.5 million); CEHE itself has sponsored two of the previous transition bond offerings totaling $2.6 billion.

- The Restructuring Act (SB 7) became effective on September 1, 1999
  - Authorized competition in the retail electric market and the electricity generation market beginning in 2002
  - Required a rate freeze for all retail electric customers until 2002, and access to certain reduced rates for residential and small commercial retail electric customers for up to five years thereafter
  - Required certain integrated electric utilities to separate their business into the following units: a power generation company; a retail electric provider (REP); a transmission and distribution utility
  - Provided for recovery of qualified costs and for the 2004 proceeding to determine CEHE's recoverable true-up balance
  - Provided for securitization of a portion of the true-up balance though "transition charges," including a framework for a financing order and the state pledge to adjust transition charges to ensure expected transition charge revenues are sufficient to make timely payment of transition bonds
- In offerings in Oct. 2001 and Dec. 2005, CEHE issued $2.6 billion of Transition Bonds in aggregate pursuant to this securitization framework
- In June 2007, the Restructuring Act was amended to allow securitization of true-up balance amounts being collected through the Competition Transition Charge (CTC)
  - This amendment provides a framework for CEHE to securitize the remainder of the amounts determined in the Dec. 2004 order
- On September 18, 2007, the Public Utility Commission of Texas (PUCT) issued a Financing Order to CEHE authorizing the issuance of approximately $500 million of transition bonds
- The transition charges in the CEHE III offering comprise an estimated 0.3% of the customer's bill; in aggregate with the other two securitizations, the percentage is about 3.4%

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Recent Precedent Texas Securitizations

Offer Date	Issuer	Tranche	Coupon	Expected Final	Legal-Final (yrs)	Amount ($mm)	WAL (yrs)	Yield (%)	Price (%)	Reoffer Spread
01/29/08	CenterPoint Energy Transition Bond Company III, LLC	A-1	4.192%	02/01/2017	3.00	$301.427	5.00	4.192%	99.96161%	Swap+54
01/29/08		A-2	5.234%	02/01/2020	3.00	$187.045	10.52	5.234%	99.94074%	Swap+94
Total/Average						$488.472	7.11	4.691%	4.782%	**(Time Weighted)**
06/22/07	Entergy Gulf States Reconstruction Funding I, LLC	A-1	5.51%	10/01/2012	1.00	$93.500	2.99	5.510%	Var	Swap+2
06/22/07		A-2	5.79%	10/01/2017	1.00	$121.600	7.99	5.790%	Var	Swap+6
06/22/07		A-3	5.93%	04/01/2021	1.25	$114.400	12.24	5.930%	Var	Swap+8
Total/Average						$329.500	6.86	5.768%	5.834%	**(Time Weighted)**
10/04/06	AEP Texas Central Transition Funding II LLC	A-1	4.98%	01/01/2010	2.00	$217.000	2.00	4.972%	99.99565%	Swap-7
10/04/06		A-2	4.98%	07/01/2013	2.00	$341.000	5.00	4.985%	99.94158%	Swap-2
10/04/06		A-3	5.09%	07/01/2015	2.00	$250.000	7.58	5.094%	99.95516%	Swap+3
10/04/06		A-4	5.17%	01/01/2018	2.00	$437.000	10.00	5.174%	99.94852%	Swap+6
10/04/06		A-5	5.3363%	07/01/2020	2.00	$494.700	12.68	5.304%	99.99937%	Swap+14.1
Total/Average						$1,739.700	8.44	5.138%	5.191%	**(Time Weighted)**
12/09/05	CenterPoint Energy Transition Bond Company II, LLC	A-1	4.840%	02/01/2009	2.00	$250.000	2.0	4.840%	99.98928%	Swaps-3
12/09/05		A-2	4.970%	08/01/2012	2.00	$368.000	5.0	4.974%	99.96013%	Swaps+0
12/09/05		A-3	5.090%	02/01/2014	1.00	$252.000	7.5	5.089%	99.99640%	Swaps+5
12/09/05		A-4	5.170%	08/01/2017	2.00	$518.000	10.0	5.172%	99.97480%	Swaps+7
12/09/05		A-5	5.302%	08/01/2019	1.00	$462.000	12.7	5.302%	100.00000%	Swaps+13
Total/Average						$1,851.000	8.28	5.109%	5.177%	**(Time Weighted)**

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Expected Principal Balance and Amortization Schedules

Date	A-1	A-2	Total
02/12/08	$301,427,000	$187,045,000	**$488,472,000**
02/01/09	280,924,656	187,045,000	467,969,656
08/01/09	268,256,701	187,045,000	455,301,701
02/01/10	251,782,048	187,045,000	438,827,048
08/01/10	237,859,224	187,045,000	424,904,224
02/01/11	219,982,954	187,045,000	407,027,954
08/01/11	204,690,875	187,045,000	391,735,875
02/01/12	185,303,088	187,045,000	372,348,088
08/01/12	168,762,944	187,045,000	355,807,944
02/01/13	148,092,709	187,045,000	335,137,709
08/01/13	130,422,319	187,045,000	317,467,319
02/01/14	108,584,646	187,045,000	295,629,646
08/01/14	89,707,258	187,045,000	276,752,258
02/01/15	66,561,475	187,045,000	253,606,475
08/01/15	46,371,221	187,045,000	233,416,221
02/01/16	21,811,317	187,045,000	208,856,317
08/01/16	211,722	187,045,000	187,256,722
02/01/17	0	161,178,513	161,178,513
08/01/17	0	138,058,931	138,058,931
02/01/18	0	110,286,031	110,286,031
08/01/18	0	85,435,383	85,435,383
02/01/19	0	55,813,565	55,813,565
08/01/19	0	29,133,713	29,133,713
02/01/20	0	0	0

Date	A-1	A-2	Total
02/12/08	**5.00 yr WAL**	**10.52 yr WAL**	**7.11 yr WAL**
02/01/09	$20,502,344	$0	$20,502,344
08/01/09	12,667,955	0	12,667,955
02/01/10	16,474,653	0	16,474,653
08/01/10	13,922,824	0	13,922,824
02/01/11	17,876,270	0	17,876,270
08/01/11	15,292,079	0	15,292,079
02/01/12	19,387,786	0	19,387,786
08/01/12	16,540,144	0	16,540,144
02/01/13	20,670,235	0	20,670,235
08/01/13	17,670,390	0	17,670,390
02/01/14	21,837,673	0	21,837,673
08/01/14	18,877,388	0	18,877,388
02/01/15	23,145,783	0	23,145,783
08/01/15	20,190,254	0	20,190,254
02/01/16	24,559,904	0	24,559,904
08/01/16	21,599,595	0	21,599,595
02/01/17	211,722	25,866,487	26,078,209
08/01/17	0	23,119,582	23,119,582
02/01/18	0	27,772,900	27,772,900
08/01/18	0	24,850,648	24,850,648
02/01/19	0	29,621,819	29,621,819
08/01/19	0	26,679,852	26,679,852
2/1/2020	0	29,133,713	29,133,713

AAA Rated Comparable Pricing

Symbol	Coupon	Maturity	Issue Size ($ MM)	WAL (yrs.)	Spread Over Interpolated Treasuries (bps)	Spread Over Interpolated Swaps (bps)
MRK	4.375	2/15/2013	$500	8.8	52	-2
JNJ	3.800	5/15/2013	500	9.1	44	-9
TVA	4.750	8/01/2013	1,500	9.3	61	+9
FHLB	4.500	9/16/2013	3,000	9.4	60	+10
FHLMC	4.500	1/15/2014	6,000	9.7	59	+11
PFE	4.500	2/15/2014	750	9.8	50	+3
FNMA	4.125	4/15/2014	4,000	10.0	59	+9

Yield spreads from Bloomberg BGN (or, if not available, BFV) prices as of 5/15/04.
Source: Bloomberg

Credit Spreads for Auto Loan ABS vs. Credit Card ABS
Spread to Swaps (bps)
Table 2

	AAA Auto Loan ABS		AAA Credit Cards		
	2-year	**3-year**	**2-year**	**3-year**	**5-year**
June 6, 2013	12	17	10	13	25
July 18, 2013	28	35	20	25	35
Increase	16	18	10	12	10

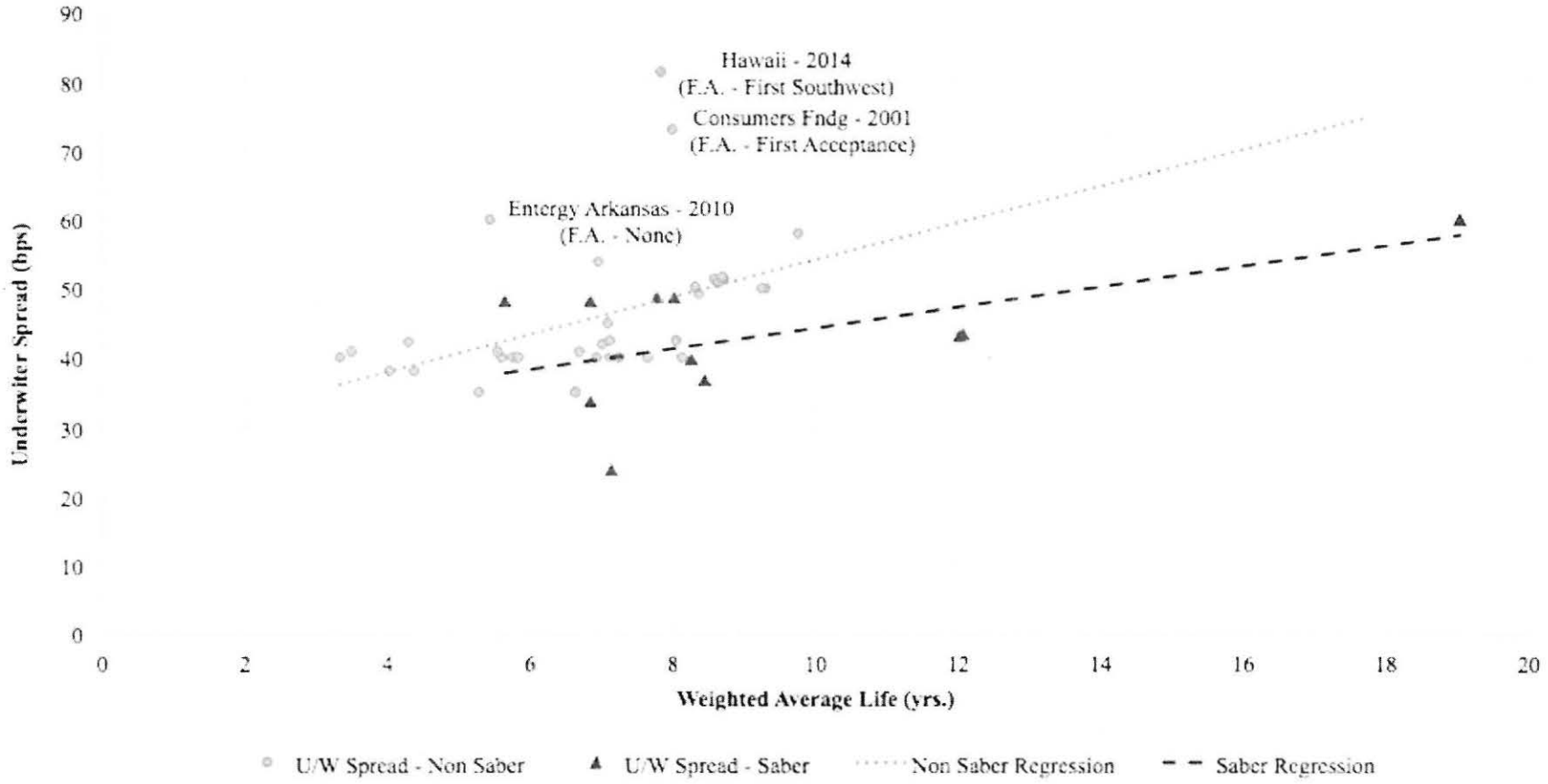
Source: *"Consumer ABS Weekly," Citigroup Research, July 18, 2013*

Servicer Set-up Costs Estimates ($)

Deal Name	Date of Issuance	Deal Size	Reported Servicer Set-up Fees Set-up fees
Reliant Energy	10/24/01	748,897,000	14,880 †
Central Power & Light ^	2/7/02	797,334,897	43,717 †
Oncor Electric Delivery ^	8/21/03	500,000,000	0 †
TXU Electric Delivery ^	6/7/04	789,777,000	0 †
Centerpoint Energy ^	12/16/05	1,851,000,000	315,200
AEP TCC ^	10/11/06	1,739,700,000	30,000
PE Environmental Funding * ^	4/11/07	114,825,000	N/A
MP Environmental Funding * ^	4/11/07	344,475,000	N/A
FPL Recovery ***	5/22/07	652,000,000	401,382 †
Entergy Gulf States	6/29/07	329,500,000	402,116
Centerpoint ^	2/12/08	488,472,000	149,327
Entergy Texas ^	11/6/09	545,900,000	50,000
Centerpoint Energy ^	11/25/09	664,859,000	45,000
PE Environmental Funding * ^	12/23/09	21,510,000	N/A
MP Environmental Funding * ^	12/23/09	64,380,000	N/A
Louisiana Utilities	7/22/10	468,900,000	50,000
Entergy Arkansas **	8/18/10	124,100,000	140,000
Entergy Lousiana	9/22/11	207,156,000	100,000
Centerpoint Energy	1/19/12	1,695,000,000	PA
AEP TCC ^	3/14/12	800,000,000	N/A
FirstEnergy	6/20/13	444,922,000	300,000
OhioPower ^	8/1/13	267,408,000	N/A
APCo ^	11/15/13	380,300,000	50,000
LIPA	12/18/13	2,022,324,000	50,000
Consumer Energy Company ^	7/22/14	378,000,000	N/A
State of Hawaii ^	11/13/14	150,000,000	353,907
Entergy New Orleans	7/22/15	98,730,000	50,000
ELL & EGSL ***	7/15/10	244,000,000	50,000 †
ELL & LPSC ***	7/15/10	468,900,000	100,000 †
DEF low estimate	1/1/16	1,311,800,000	1,900,000
DEF high estimate	1/1/16	1,311,800,000	2,900,000

+ Servicer set-up actual cost, N/A Not available, PA Paid by Applicant.
Source: Issuance Advice Letter, * Pricing Advice Letter, ** Issuance Report Letter, *** Other.
(^) Indicates expenses were capped.

Underwriting Spreads
2001-2014



Source: Transaction documents, SEC forms.

Docket No. 150171-EI
Witness Sutherland
Exhibit No. ____ (PS-13)
Underwriting Spreads 2001-2014
Page 1 of 1

INVESTMENT DEALERS' DIGEST

IDD

A $1Mil Carrot For Co-Managers

Christopher O'Leary (christopher.oleary@tfn.com)

Feb 11, 2002

A recent $797 million stranded utility asset securitization had extremely tight pricing in part because of a deal structure that gave underwriters greater initiative to expand their selling efforts beyond the norm and offered the chance for co-managers to divvy up an additional $1 million bonus based on how well they priced and sold the bonds.

At first glance, the deal seemed like an investor's nightmare-a first-time issue for a Texas power utility, Central Power and Light Co., securitizing assets it received as part of a state power deregulation agreement, the likes of which have been tarred due to the California energy crisis. What is more, the deal was pricing soon after the fall of Enron Corp., which likely would have been a major player in the just-deregulated Texas energy market if it hadn't imploded. Finally, the deal's lead manager, Goldman Sachs, was a marginal player in asset-backed securities, having ranked just fourteenth in global ABS last year.

Yet Goldman and the deal's co-managers pulled off a pricing coup. Prices on most of the deal's tranches were substantially tightened, by more than 10 basis points for some tranches, so that the stranded-asset deal priced in the same range as a typical credit-card securitization, which is considered the ABS market's "gold standard." The deal's pricing range was seven to 34 bps, while comparable stranded-asset deals have had ranges of nine to 67 bps.

What appears to be market prestidigitation can be explained quite simply. The deal's arrangers-issuers CPL Transition Funding LLC (a subsidiary of CPL Co.) and the Public Utility Commission of Texas, along with the latter's adviser, Saber Partners LLC-put together a unique type of structure that made the deal's co-managers a much more integral part of the game. It also offered a $1 million bonus pool to be awarded solely at its discretion to the co-managers based on their performance. The result: pricing so tight that future deals from Texas' deregulation program will likely have a similar carrot-and-stick structure, officials involved with the deal said.

Consider it a reversal of recent fortune. The co-manager slot on a debt financing deal is now generally more political than effectual. Because the lead manager of a deal has become more dominant in how a deal gets allocated and priced, some co-managers wind up essentially serving face time in deals. Also, because of the growing interlinking between lending and debt underwriting, issuers frequently dole out co-manager slots to banks with whom they seek to curry favor, or with which they have done recent business, regardless of such banks' expertise.

This deal turned all that thinking on its ear. What CPL, the PUC and Saber were after was the best performance possible out of their underwriters. Already, by choosing Goldman as a lead manager, the issuers had a hungry underwriter with something to prove. "Goldman did a great job overall," said Joseph Fichera, chief executive officer of Saber Partners.

The real meat, however, was reserved for the co-manager roles. Bear, Stearns & Co., Credit Suisse First Boston, Citigroup/Salomon Smith Barney and Merrill Lynch & Co. were all brought into the fold, and given much greater incentive than normal for such a role. First, the issuers split up the deal's allocation 50/50: Goldman handled 50% of the deal's allocation, while the four co-managers and Goldman divvied up the remainder, a generous allowance, to say the least.

Also, all the underwriters were competing to win a slice of the $1 million prize. "We would judge their performances; it was completely discretionary based upon the decision of the company, the Commission and us," said Saber Partners' Fichera. Top honors for co-managers went to Bear and Merrill.

Orders Crediting Costs above Incremental Costs to Ratepayers

1. California PUC's 2004 Financing Order issued to Pacific Gas and Electric Company (PG&E) (Decision 04 11-015 and 41 ("To the extent PG&E's incremental costs to provide this service are less than the servicing fee revenue from the Bond Trustee, PG&E will return that excess revenue to consumers through the ERBBA.");

2. New Jersey BPU's 2005 Financing Order issued to Public Service Electric &Gas Company (BPU Docket No. EF03070532), Ordering Paragraph 22 ("However, if the Servicing Fee is greater than the actual incremental costs to service the BGS Transition Property, other rates of the Petitioner shall be adjusted to reflect the difference between actual servicing costs and the Servicing Fee.");

3. Montana PSC's 1998 Financing Order issued to Montana Power Company (Docket No. D97.11.219; Order No. 6035a), pages 6 and 7 ("The full amount of the market-based servicing fee will be included in the FTA charges. However, as long as Applicant is servicer, Applicant proposes a ratemaking mechanism that will provide a credit to ratepayers equal in value to any amounts it receives as compensation, since these servicing costs will generally be included in the Applicant's overall cost of service.");

4. California PUC's 1997 and 1998 Financing Orders issued to PG&E (Decision 97-09-055 September 3, 1997), Southern California Edison Company (Decision 97-09-056 September 3, 1997), San Diego Gas &Electric Company (Decision 97-09-057 September 3, 1997) and Sierra Pacific Power Company (Decision 98-10-021 June 24,

1998), page 6 ("The full amount of the market-based servicing fee will be included in the FTA charges. However, as long as PG&E is servicer, PG&E proposes a ratemaking mechanism which will provide a credit, after the rate-freeze period, to residential and small commercial ratepayers in PG&E's Rate Reduction Bonds Memorandum Account equal tin value to any amounts it receives as compensation, excepting only amounts needed to cover incremental, out-of-pocket costs and expenses incurred by PG&E to service the RRBs. These types of expenses would include required audits related to PG&E's role as servicer, and legal and accounting fees related to the servicing obligation. Thus, the only net ratemaking impact will be such incremental expenses.").

THE BOND BUYER
Wednesday, August 26, 2015 | as of 3:51 PM ET

REGIONAL NEWS

Louisiana Commission Picks Citi for $1B Sale

JIM WATTS
MAY 16, 2008 1:00am ET

DALLAS - The Louisiana State Bond Commission on Thursday selected Citi as senior underwriter and book-runner on $1.01 billion of taxable utility system revenue bonds to be issued by the Louisiana Public Facilities Authority on behalf of two units of Entergy Inc.

The bonds will provide $721 million of proceeds to Entergy Louisiana LLC and $291 million of proceeds to Entergy Gulf States Inc. The money will reimburse the utilities for the cost of restoring electrical delivery systems in Louisiana after hurricanes Katrina and Rita in 2005, and fund a restoration reserve of $250 million to repair damages from future storms.

The debt will be supported by a 10-year surcharge on electric customers in the state.

Other members of the underwriting team include co-senior manager Morgan Stanley and co-managers JPMorgan, Loop Capital Markets LLC, Stephens Inc, Doley Securities, and Dorsey & Co.

Morgan Stanley served as Entergy's financial adviser as the deal was structured, but said it would resign immediately if picked as part of the underwriting team. However the commission added the stipulation that Morgan Stanley must not serve as a financial adviser to Entergy for 10 years.

If Morgan Stanley does not agree to that provision, JPMorgan would move up to become co-senior underwriter with investment bank Barclays Capital substituted as the fifth co-manager.

The commission gave its preliminary or final approval to $1.3 billion of Gulf Opportunity Zone bonds, including $1.05 billion for projects in parishes located within the competitive capacity pool and $298 million from the capacity dedicated for parishes most affected by the two storms in 2005.

With the approvals, there is $861 million in capacity dedicated to the most affected areas, and only $12 million in the competitive capacity pool.

The drawdown on the dedicated pool included an allocation of $200 million for an ethanol project located in St. James Parish, which is not one of the most affected parishes.

Sponsors of the Tiger State Ethanol LLC project filed suit against the commission two weeks ago in state district court contending they were promised an allocation at the commission's meeting on Dec. 20, 2007. The plaintiffs agreed to drop the suit if the project received a hearing at Thursday's commission meeting.

Whitman Kling Jr., director of the Bond Commission, said it was not unprecedented to take capacity from one pool and allocate it to projects outside the area.

"This isn't the first time this has happened," Kling said. "Some of the GO Zone projects approved today were charged against the competitive pool but they are located in parishes within the dedicated pool. Even though there is money in the dedicated pool there just was no remaining capacity for that specific parish."

Projects that receive final approval for an allocation of GO Zone bonds have 120 days to sell the bonds or the capacity is returned to the appropriate pool. Kling said all the bonds with allocations set to expire June 9 have closed, as has a $250 million allocation set to expire June 22.

Projects receiving an allocation of GO Zone bonds at the meeting included $50 million for a new research and technology facility at Louisiana State University in Baton Rouge, $135 million for Dynamic Fuels LLC to develop a renewable synthetic fuel manufacturing facility in Geismar; $100 million for Cleco Power LLC to rebuild damaged utility property in Iberia, St. Mary, and St. Tammany parishes; and $100 million for REG Destrehan LLC to build a bio-diesel production facility in St. Rose.

The bond commission also approved a proposal by the Orleans Parish School Board to issues $134.2 million of general obligation bonds to refunds GO bonds issued in 1995, 1996, 1997, and 1998.

Ordering Paragraphs

The following Ordering Paragraphs specify that the commission, acting through its financial advisor, had equal rights with the utility to approve or disapprove the proposed pricing, marketing and structuring of the bonds before the decision was made:

1. Ordering Paragraph 26 of the Texas PUC's 2005 Financing Order issued to CenterPoint (PUC Docket No. 30485);

2. Ordering Paragraph 21 of the Texas PUC's 2002 Financing Order issued to Central Power & Light (Docket No. 21528);

3. Ordering Paragraph 21 of the Texas PUC's 2002 Financing Order issued to TXU Electric (Docket No. 21528);

4. Ordering Paragraph 21 of the Texas PUC's 2002 Financing Order issued to Reliant Energy (Docket No. 21665);

5. Ordering Paragraph 17 of the New Jersey BPU's 2005 Financing Order issued to PSE&G (BPU Docket No. EF03070532);

6. Ordering Paragraph 7 of the Wisconsin PSC's 2004 Financing Order issued to Wisconsin Electric Power Company (Docket No. 6630-ET-100).

Confidential

TTB's Texas Transition Bonds

CenterPoint Energy

CenterPoint Energy Transition Bond Company II, LLC

$1,851,000,000

Senior Secured Transition Bonds, Series A

Pricing Book

December 19, 2005

□nvestors

Investor Participation Profile – Investor Type

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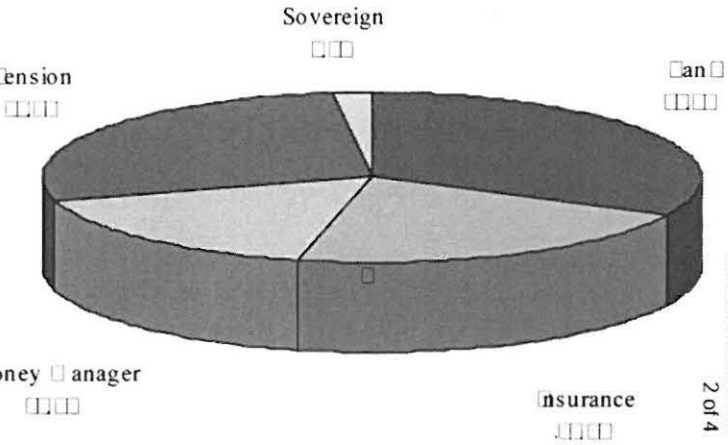

1. *Figures may not sum to totals due to rounding*

Docket No. 150171-EI
Witness: Sutherland
Exhibit No. ____ (PS-17)
Source of Investors
2 of 4

nvestors

Investor Participation Profile – Investor Location

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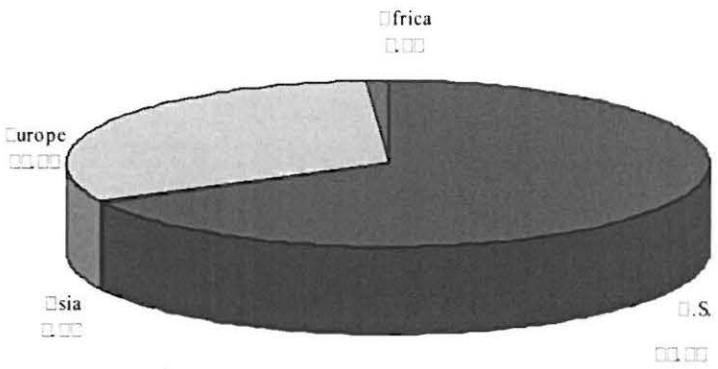

1. *Figures may not sum to totals due to rounding*

Docket No. 150171-EI
Witness: Sutherland
Exhibit No. ____ (PS-17)
Source of Investors
3 of 4

nvestors

Investor Participation Profile – Investor Universe

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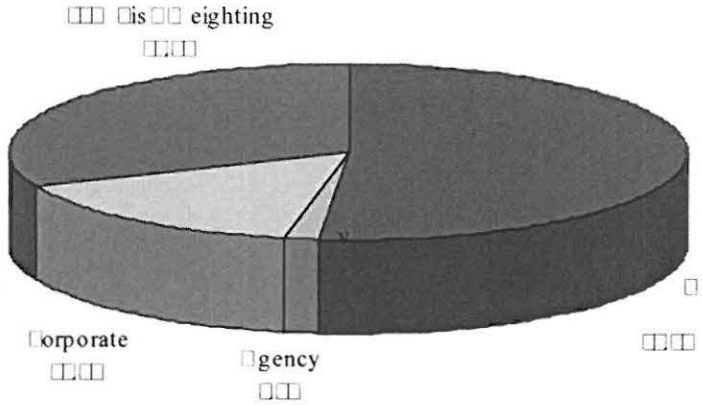
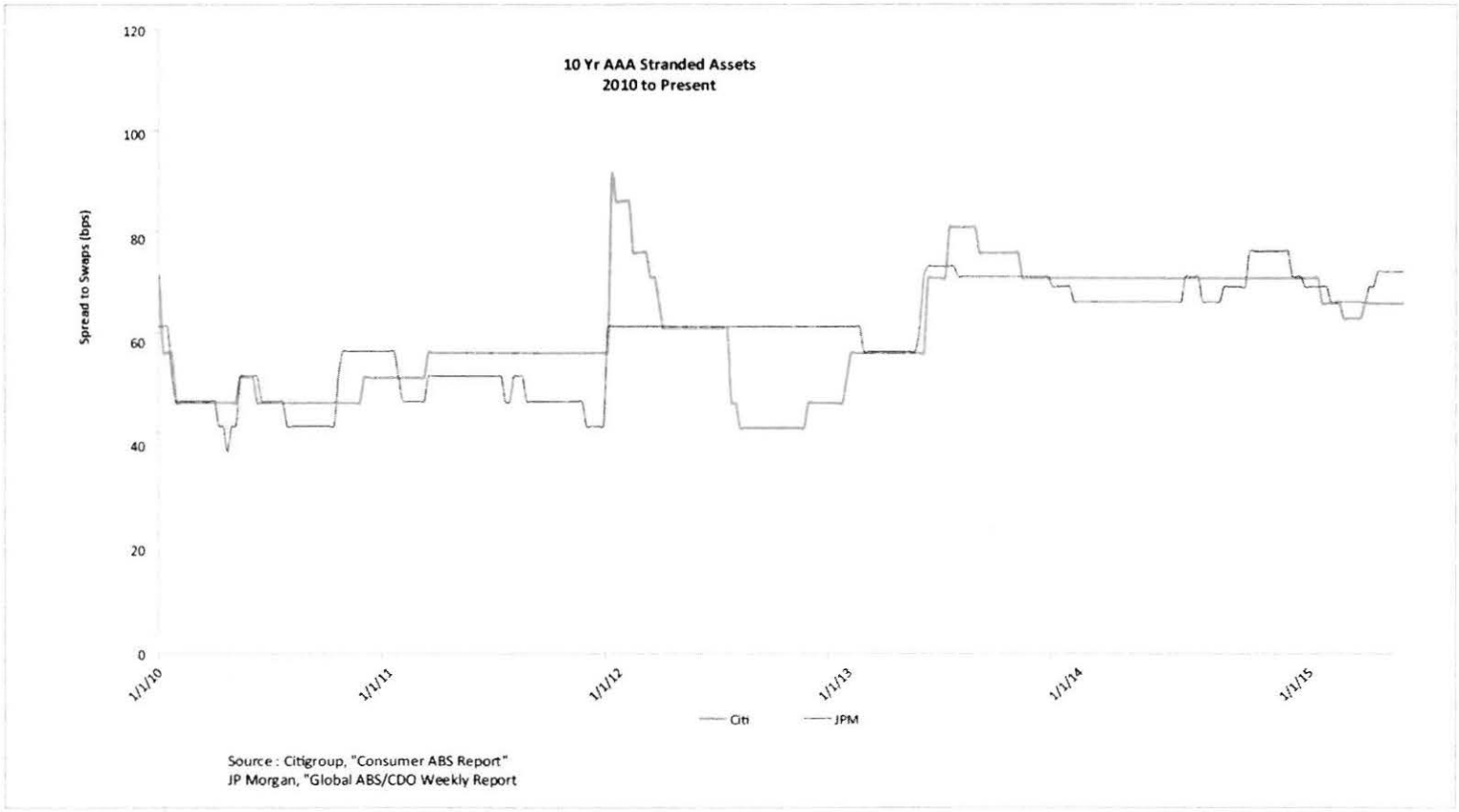


1. *Figures may not sum to totals due to rounding*

Docket No. 150171-EI
Witness: Sutherland
Exhibit No. ____ (PS-17)
Source of Investors
4 of 4

Source: Transaction documents, SEC forms.



Docket No. 150171-EI
Witness: Sutherland
Exhibit No. ____ (PS-19)
10-Year AAA Stranded Assets 2010 to Present
Page 1 of 1

Saber Partners, LLC

Utility Securitization Transactions

Deal #	Deal Name	Tranche		Amount	Weighted Average Life
64	Entergy New Orleans Storm Recovery Funding I (7/14/15)	A-1	$	98,730,000	4.98
63	Dept of Business, Econ Devel. & Tourism (Hawaii)	A-1	$	50,000,000	3.05
	(11/04/2014)	A-2	$	100,000,000	10.21
	Taxable muni	Total	$	150,000,000	7.82
62	Louisiana Local Government System Restoration/ELL	A-1	$	91,700,000	3.00
	(7/29/2014)	A-2	$	152,150,000	8.90
	Taxable muni	Total	$	243,850,000	
61	Louisiana Local Government System Restoration/EGSL (7/29/2014) (Taxable munis)	A-1	$	71,000,000	6.72
60	Consumers 2014 Securitization Funding LLC	A-1	$	124,500,000	3.00
	(7/14/2014)	A-2	$	139,000,000	8.00
		A-3	$	114,500,000	12.26
		Total	$	378,000,000	7.64
59	Utility Debt Securitzation Authority [LIPA]	T-1	$	100,000,000	4.91
	(12/12/2013)	T-2	$	100,000,000	5.92
		T-3	$	100,000,000	6.70
		T-4	$	182,934,000	8.77
	NB Total includes taxable debt only. An additional $1.5B of tax exempt debt was issued	Total	$	482,934,000	6.95
58	Appalachian Consumer Rate Relief Funding LLC	A-1	$	215,800,000	5.00
	(11/6/2013)	A-2	$	164,500,000	12.24
		Total	$	380,300,000	8.13
57	Ohio Phase-In-Recovery Funding LLC	A-1	$	164,900,000	2.25
	(7/23/2013)	A-2	$	102,508,000	5.08
		Total	$	267,408,000	3.33
56	FirstEnergy Ohio PIRB Special Purpose Trust	A-1	$	111,971,000	1.60
	(6/12/2013)	A-2	$	70,468,000	5.07
	(Issued as pass-through certificates, backed by bonds	A-3	$	262,483,000	13.70
	issued by CEI, OE and TE)	Total	$	444,922,000	9.29
55	AEP Texas Central Transition Funding III (3/7/2012)	A-1	$	307,900,000	3.00
		A-2	$	180,200,000	7.00
		A-3	$	311,900,000	10.76
		Total	$	800,000,000	6.93
54	CenterPoint Energy Transition Bond Co. IV	A-1	$	606,222,000	3.00
	(1/11/2012)	A-2	$	407,516,000	7.00
		A_3	$	681,262,000	10.82
		Total	$	1,695,000,000	7.10
53	Entergy Louisiana Investment Recovery Funding I, LLC	A-1	$	207,156,000	5.27
	(9/15/2011)	Total	$	207,156,000	5.27

Saber Partners, LLC

Deal #	Deal Name	Tranche		Amount	Weighted Average Life
52	Entergy Arkansas Energy Restoration Funding LLC	A-1	$	124,100,000	5.44
	(8/11/2010)	Total	$	124,100,000	5.44
51	Louisiana Utilities Restoration Corporation Project/ELL	A-1	$	112,000,000	2.00
	(7/15/2010)	A-2	$	111,000,000	5.00
	[taxable munis]	A-3	$	121,000,000	8.00
		A-4	$	124,900,000	10.90
		Total	$	468,900,000	6.63
50	Louisiana Utilities Restoration Corporation Project/EGSL	A-1	$	97,000,000	3.00
	7/15/2010 [taxable munis]	A-2	$	60,000,000	7.00
		A-3	$	87,100,000	10.40
		Total	$	244,100,000	6.62
49	MP Environmental Funding LLC	A-1	$	64,380,000	19.02
	(12/16/2009)	Total	$	64,380,000	19.02
48	PE Environmental Funding LLC	A-1	$	21,510,000	19.02
	(12/16/2009)	Total	$	21,510,000	19.02
47	CenterPoint Energy Restoration Bond	A-1	$	224,788,000	3.00
	(11/18/2009)	A-2	$	160,152,000	7.00
		A-3	$	279,919,000	10.82
		Total	$	664,859,000	7.26
46	Entergy Texas Restoration Funding	A-1	$	182,500,000	3.00
	(10/29/09)	A-2	$	144,800,000	7.00
		A-3	$	218,600,000	10.86
		Total	$	545,900,000	7.21
45	Louisiana Public Facilities Authority	A-1	$	103,000,000	2.66
	(8/20/2008)	A-2	$	90,000,000	6.24
		A-3	$	85,400,000	8.97
		Total	$	278,400,000	5.75
44	Louisiana Public Facilities Authority	A-1	$	160,000,000	1.99
	(7/22/2008)	A-2	$	367,000,000	5.97
		A-3	$	160,700,000	9.32
		Total	$	687,700,000	5.83
43	Cleco Katrina/Rita Hurricane Recovery Funding LLC 2008	A-1	$	113,000,000	5.00
	(2/28/2008)	A-2	$	67,600,000	10.58
		Total	$	180,600,000	7.09
42	CenterPoint Energy Transition Bond Company III	A-1	$	301,427,000	5.00
	(1/29/2008)	A-2	$	187,045,000	10.52
		Total	$	488,472,000	7.11
41	Entergy Gulf States Reconstruction Funding I, LLC	A-1	$	93,500,000	2.99
	(6/22/2007)	A-2	$	121,600,000	7.99
	[N/B. These securities were sold with variable pricing]	A-3	$	114,400,000	12.24
		Total	$	329,500,000	8.05
40	RSB BondCo LLC (BG&E sponsor)	A-1	$	284,000,000	2.99
	(6/22/2007)	A-2	$	220,000,000	6.99
		A-3	$	119,200,000	9.27
		Total	$	623,200,000	5.60

Saber Partners, LLC

Deal #	Deal Name	Tranche		Amount	Weighted Average Life
39	FPL Recovery Funding LLC	A1	$	124,000,000	1.97
	(5/15/07)	A2	$	140,000,000	4.98
		A3	$	100,000,000	7.31
		A4	$	288,000,000	10.38
		Total	$	652,000,000	7.15
38	MP Environmental Funding LLC	A-1	$	86,200,000	4.00
	(4/3/2007)	A-2	$	76,000,000	10.00
		A-3	$	153,250,000	16.00
		A-4	$	29,025,000	20.00
		Total	$	344,475,000	12.01
37	PE Environmental Funding, LLC	A-1	$	28,450,000	4.00
	(4/3/2007)	A-2	$	25,700,000	10.00
		A-3	$	50,700,000	16.10
		A-4	$	9,975,000	19.94
		Total	$	114,825,000	12.07
36	AEP Texas Central Transition Funding II	A-1	$	217,000,000	2.00
	(10/4/2006)	A-2	$	341,000,000	5.00
		A-3	$	250,000,000	7.58
		A-4	$	437,000,000	10.00
		A-5	$	494,700,000	12.68
		Total	$	1,739,700,000	8.44
35	JCP&L Transition Funding II	A-1	$	56,348,000	3.00
	(8/4/2006)	A-2	$	25,693,000	7.00
		A-3	$	49,220,000	10.00
		A-4	$	51,139,000	13.40
		Total	$	182,400,000	8.37
34	Centerpoint Energy Series A	A-1	$	250,000,000	2.02
	(12/9/2005)	A-2	$	368,000,000	5.00
		A-3	$	252,000,000	7.47
		A-4	$	519,000,000	10.01
		A-5	$	462,000,000	12.71
		Total	$	1,851,000,000	8.26
33	PG&E Energy Recovery Funding LLC Series 2005-2	A-1	$	351,000,000	2.00
	(11/3/2005)	A-2	$	372,000,000	5.00
		A-3	$	121,461,000	6.83
		Total	$	844,461,000	4.02
32	West Penn Power	A-1	$	115,000,000	4.24
	(9/22/2005)	Total	$	115,000,000	4.24
31	PSE&G 2005-1	A-1	$	25,200,000	2.00
	(9/9/2005)	A-2	$	35,000,000	5.00
		A-3	$	20,000,000	7.47
		A-4	$	22,500,000	9.16
		Total	$	102,700,000	5.66
30	Massachusetts RRB Special Purpose Trust 2005-1	A-1	$	109,200,000	1.00
	(BEC Funding ll, LLC $265.5M and CEC Funding, LLC $4	A-2	$	154,000,000	2.50
	15/02/2005	A-3	$	266,500,000	5.00
	(Nstar (FKA Boston Edison))	A-4	$	144,800,000	7.40
		Total	$	674,500,000	4.30

Saber Partners, LLC

Deal #	Deal Name	Tranche		Amount	Weighted Average Life
29	PG&E Energy Recovery Funding LLC Series 2005-1	A-1	$	268,000,000	1.00
	(2/3/2005)	A-2	$	647,000,000	3.00
		A-3	$	320,000,000	5.00
		A-4	$	468,000,000	6.50
		A-5	$	184,864,000	7.68
		Total	$	1,887,864,000	4.38
28	Rockland Electric Company	A-1	$	46,300,000	8.70
	(7/28/04)	Total	$	46,300,000	8.70
27	Oncor (TXU) 2004-1	A-1	$	279,000,000	3.00
	(5/28/2004)	A-2	$	221,000,000	7.00
		A-3	$	289,777,000	10.43
		Total	$	789,777,000	6.85
26	Atlantic City Electric	A-1	$	46,000,000	2.97
	(12/18/2003)	A-2	$	52,000,000	8.24
		A-3	$	54,000,000	12.90
		Total	$	152,000,000	8.30
25	Oncor 2003-1	A-1	$	103,000,000	2.00
	(8/14/2003)	A-2	$	122,000,000	5.00
		A-3	$	130,000,000	8.00
		A-4	$	145,000,000	10.83
		Total	$	500,000,000	6.85
24	Atlantic City Electric	A-1	$	109,000,000	3.00
	(12/11/2002)	A-2	$	66,000,000	7.00
		A-3	$	118,000,000	10.50
		A-4	$	147,000,000	15.39
		Total	$	440,000,000	9.75
23	JCP&L Transition Funding LLC	A-1	$	91,111,000	3.00
	(6/4/2002)	A-2	$	52,297,000	7.00
		A-3	$	77,075,000	10.00
		A-4	$	99,517,000	13.40
		Total	$	320,000,000	8.57
22	CPL Transition Funding LLC	A-1	$	128,950,233	1.90
	(1/31/2002)	A-2	$	154,506,810	4.70
		A-3	$	107,094,258	7.20
		A-4	$	214,926,738	10.00
		A-5	$	191,856,858	13.00
		Total	$	797,334,897	8.01
21	PSNH Funding LLC 2	A-1	$	50,000,000	3.50
	(1/16/2002)	Total	$	50,000,000	3.50
20	Consumers Funding LLC	A-1	$	26,000,000	1.00
	(10/31/2001)	A-2	$	84,000,000	3.00
		A-3	$	31,000,000	5.00
		A-4	$	95,000,000	7.00
		A-5	$	117,000,000	10.00
		A-6	$	115,592,000	12.80
		Total	$	468,592,000	8.00

Saber Partners, LLC

Deal #	Deal Name	Tranche		Amount	Weighted Average Life
19	Reliant Energy 2001-1	A-1	$	115,000,000	2.71
	(10/17/2001)	A-2	$	118,000,000	5.19
		A-3	$	130,000,000	7.19
		A-4	$	385,987,000	10.29
		Total	$	748,987,000	7.78
18	Western Mass Electric	A-1	$	155,000,000	7.00
	(5/14/2001)	Total	$	155,000,000	7.00
17	PSNH Funding LLC	A-1	$	75,211,483	1.09
	(4/20/2001)	A-2	$	214,649,395	5.04
		A-3	$	235,139,122	9.99
		Total	$	525,000,000	6.69
16	CL&P Funding LLC	A-1	$	224,858,822	1.18
	(3/27/2001)	A-2	$	255,056,333	3.16
		A-3	$	292,381,624	5.16
		A-4	$	287,907,878	7.02
		A-5	$	378,195,343	8.89
		Total	$	1,438,400,000	5.54
15	Detroit Edison 2001-1	A-1	$	124,540,305	1.50
	(3/2/2001)	A-2	$	179,037,815	3.30
		A-3	$	322,791,421	5.80
		A-4	$	406,722,416	8.80
		A-5	$	326,236,780	11.30
		A-6	$	390,671,263	13.30
		Total	$	1,750,000,000	8.64
14	PECO 2001-A	A-1	$	805,500,000	9.25
	(2/15/2001)	Total	$	805,500,000	9.25
13	PSE&G 2001-A	A-1	$	105,249,914	1.00
	(1/25/2001)	A-2	$	368,980,380	2.90
		A-3	$	182,621,909	4.88
		A-4	$	496,606,425	7.02
		A-5	$	328,032,965	9.38
		A-6	$	453,559,632	11.39
		A-7	$	219,688,870	12.99
		A-8	$	370,259,905	14.27
		Total	$	2,525,000,000	8.69
12	PECO 2000-A	A-1	$	110,000,000	1.11
	(4/27/2000)	A-2	$	140,000,000	2.08
		A-3	$	398,900,000	8.74
		A-4	$	351,100,000	9.33
		Total	$	1,000,000,000	7.18
11	West Penn Power	A-1	$	74,000,000	1.00
	(11/3/1999)	A-2	$	172,000,000	3.00
		A-3	$	198,000,000	5.50
		A-4	$	156,000,000	7.80
		Total	$	600,000,000	4.83

Saber Partners, LLC

Deal #	Deal Name	Tranche		Amount	Weighted Average Life
10	Pennsylvania Power & Light	A-1	$	293,000,000	1.00
	(7/29/1999)	A-2	$	178,000,000	2.00
		A-3	$	303,000,000	3.00
		A-4	$	201,000,000	4.00
		A-5	$	313,000,000	5.00
		A-6	$	223,000,000	6.00
		A-7	$	455,000,000	7.22
		A-8	$	454,000,000	8.75
		Total	$	2,420,000,000	5.17
9	Boston Edison	A-1	$	108,500,000	1.09
	(7/27/1999)	A-2	$	170,600,000	3.13
		A-3	$	103,400,000	5.13
		A-4	$	170,900,000	7.13
		A-5	$	171,600,000	9.63
		Total	$	725,000,000	5.59
8	Sierra Pacific Power	A-1	$	24,000,000	
	(4/8/1999)	Total	$	24,000,000	
7	PECO Energy	A-1	$	244,500,000	1.30
	(3/18/1999)	A-2	$	275,400,000	3.27
		A-3	$	667,000,000	4.04
		A-4	$	458,500,000	5.38
		A-5	$	464,600,000	6.29
		A-6	$	993,400,000	7.28
		A-7	$	896,700,000	8.92
		Total	$	4,000,100,000	6.13
6	Montana Power	A-1	$	64,000,000	
	(12/22/1998)	Total	$	64,000,000	
5	Illinois Power	A-1	$	110,000,000	0.79
	(12/10/1998)	A-2	$	100,000,000	1.79
		A-3	$	80,000,000	2.93
		A-4	$	85,000,000	3.93
		A-5	$	175,000,000	5.17
		A-6	$	175,000,000	7.40
		A-7	$	139,000,000	9.54
		Total	$	864,000,000	5.05
4	Commonwealth Edison	A-1	$	426,600,000	0.88
	(12/7/1998)	A-2	$	423,400,000	2.04
		A-3	$	259,300,000	3.04
		A-4	$	420,700,000	4.04
		A-5	$	598,700,000	5.54
		A-6	$	761,300,000	7.54
		A-7	$	510,000,000	9.41
		Total	$	3,400,000,000	5.17

Saber Partners, LLC

Deal #	Deal Name	Tranche		Amount	Weighted Average Life
3	San Diego Gas & Electric	A-1	$	65,800,000	0.77
	(12/4/1997)	A-2	$	82,600,000	1.78
		A-3	$	66,200,000	2.92
		A-4	$	65,700,000	3.92
		A-5	$	96,500,000	5.15
		A-6	$	197,600,000	7.29
		A-7	$	83,500,000	9.52
		Total	$	657,900,000	5.14
2	Southern California Edison	A-1	$	246,000,000	0.79
	(12/4/1997)	A-2	$	307,000,000	1.79
		A-3	$	248,000,000	2.93
		A-4	$	246,000,000	3.93
		A-5	$	361,000,000	5.17
		A-6	$	740,000,000	7.40
		A-7	$	315,000,000	9.54
		Total	$	2,463,000,000	5.19
1	Pacific Gas & Electric	A-1	$	125,000,000	0.56
	(11/25/1997)	A-2	$	265,000,000	1.09
		A-3	$	280,000,000	1.99
		A-4	$	300,000,000	3.01
		A-5	$	290,000,000	4.02
		A-6	$	375,000,000	5.17
		A-7	$	866,000,000	7.31
		A-8	$	400,000,000	9.48
		Total	$	2,901,000,000	5.19
	Total All Utility Securitization Deals		$	49,080,736,897	

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for issuance of nuclear asset-recovery financing order, by Duke Energy Florida, Inc. d/b/a Duke Energy.	DOCKET NO. 150171-EI DATED: SEPTEMBER 4, 2015

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the testimony of Hyman Schoenblum on behalf of the staff of the Florida Public Service Commission was electronically filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following by electronic mail, on this 4th day of September, 2015.

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