

Duke Energy Florida

Nuclear Asset-Recovery Bond Issuance

Discussion of Estimated Up-front Bond Issuance Costs and Ongoing Financing Costs

Amounts in Document No. BB-1 represent estimates as of the date of DEF's filing of its petition for a financing order. Such estimates will be refined, as needed, up to the date of the issuance of the nuclear asset-recovery bonds.

The following discussion provides the basis for estimating each of the line items included in Document No. BB-1.

Up-front Bond Issuance Costs

The Company included estimated up-front bond issuance costs of \$13.8 million in the proposed structure presented in its petition for a financing order. This amount approximates the average of the range of estimated up-front bond issuance costs shown in Document no. BB-1. The slight difference relates to refinement of the estimates subsequent to the date the Company requested Morgan Stanley model the proposed structure. The Company did not request Morgan Stanley update the proposed structure for these refinements due to additional time required for the Company to update various testimony and exhibits resulting from a revised proposed structure. We deemed expediting the filing of the petition to be more important than updating the proposed structure for these refinements considering the Company will likely provide updated proposed structures to the Commission staff prior to the issuance of the financing order.

The basis for estimating each line of the estimated up-front bond issuance costs schedule is discussed below.

Underwriting Fees and Expenses – Line 1

Lower end of the range is computed at 40 basis points on the estimated principal amount of the nuclear asset recovery bond issuance. Also includes a credit of \$400,000 for the structuring advisor fee as discussed in the Company's engagement letter with Morgan Stanley for structuring advisor services if Morgan Stanley is selected as an underwriter and is compensated at least \$400,000 higher than the next highest compensated underwriter on a net basis. ($\$1,311,800,000 \times 0.004 - \$400,000 = \$4,847,200$)

Upper end of the range is computed at 50 basis points on the estimated principal amount of the nuclear asset recovery bond issuance based on a summary of underwriting fees paid on utility securitization transactions since October 2009. Does not include crediting of any structuring advisor fee under the assumption Morgan Stanley is not selected as an underwriter. ($\$1,311,800,000 \times 0.005 = \$6,559,000$)

Estimated fees are based on underwriting fee indications received from 3 of the 4 financial institutions responding to the Company's request for proposal for structuring advisory services. The fourth financial institution did not provide an underwriting fee indication but rather provided a summary of underwriting fees paid on utility securitization transactions since October 2009.

Servicer Set-up Fees (including Information Technology Programming Costs) – Line 2

Includes the cost of modifying the Company's customer billing system to provide for the billing, collecting and reporting on nuclear asset-recovery charges. The Company's initial estimate of this project cost is \$2.9 million which is reflected as the upper end of the range. The current estimate for this project is \$1.9 million and presented as the lower end of the range.

Legal Fees – Line 3

Includes expenses for issuer, structuring advisor, underwriters, and Commission advisor counsel. The lower end of the range represents an estimate of cost assuming a smooth, non-contentious process from preparing the filing of an application for a financing order through the issuance of the bonds. The upper end of the range represents an estimate of costs assuming lengthy resolution of significant, contentious issues throughout the process. Estimates are based on verbal discussions with issuer, structuring advisory, and underwriter counsel and a rough estimate for the Commission advisor counsel.

Rating Agency Fees – Line 4

The upper end of the range is based on quotes received from each of the three rating agencies. It is our understanding from Morgan Stanley that the agencies frequently do not charge the full amount of fees initially quoted. The lower end of the range is based on guidance from Morgan Stanley and is believed to be indicative of amounts charged on recent transactions.

Commission Financial Advisor Fee – Line 5

The lower end of the range represents the fixed component of the Commission's financial advisor's fee based on review of Saber Partner's response to the Commission's request for proposal. The upper end of the range represents total compensation noted in the same document.

DEF Structuring Advisor Fee – Line 6

The lower end of the range is based on the Company's executed engagement letter for structuring advisory services with Morgan Stanley. The upper end of the range allows for additional fees in the event services performed significantly exceed those originally anticipated upon execution of the engagement letter (shown as a 50 percent increase for illustrative purposes only).

Auditor Fees – Line 7

The lower end of the range represents the amounts observed in 2014 securitization filing for Consumers Energy Company (CEC) and 2013 Appalachian Power Company (APC) Issuance Advice Letter (IAL). The upper end of the range provides for scaling of these fees for the larger size of the Company's proposed nuclear asset-recovery bond issuance (shown as a 50 percent increase for illustrative purposes only). The company received an estimate of \$150,000 - \$200,000 from Deloitte, its existing external auditor, after testimony and exhibits were substantially complete.

SEC Fees – Line 8

The estimate is calculated using the SEC's current required filing fee of \$116.20 per \$1,000,000 of securities offered, assuming a proposed maximum aggregate offering price of \$1,311,800,000.

SPE Set-up Fee – Line 9

The lower end of the range is based on an estimate of legal fees from Delaware LLC counsel and is consistent with the 2013 APC IAL. The upper end of the range represents the amount observed in the 2014 filing for CEC. The company received an estimate of \$20,000 - \$25,000 from its existing Delaware legal counsel after testimony and exhibits were substantially complete.

Marketing and Miscellaneous Fees and Expenses – Line 10

The upper end of the range represents the amount observed in the 2014 filing for CEC. As the Company could not observe a clearly specified amount for comparable expense in the 2013 filing for APC it set the lower end of the range to zero.

Printing/Edgarizing Fee – Line 11

The lower end of the range represents the amount observed in the 2013 filing for CEC. The upper end of the range represents the amount observed in the 2013 APC IAL.

Trustee Fees and Expenses – Line 12

The lower end of the range is based on an estimate of legal fees from the Company's existing mortgage indenture counsel and is consistent with the 2014 filing for CEC. The upper end of the range represents the amount observed in the 2013 filing for APC (note that the 2013 APC IAL which includes trustee costs of \$14,000 was obtained after testimony and exhibits were substantially complete).

Original Issue Discount – Line 13

Coupon interest rates are generally set to the nearest one-eighth of a percent (0.125%). The difference between the set coupon and the actual yield calculated by summing the benchmark interest rate and the credit spread is considered the original issue discount. The maximum amount of the original issue discount is 0.124%. No amounts have been reflected in Document No. BB-1 given the discount is related to the coupon convention upon pricing of the nuclear asset-recovery bonds.

Ongoing Financing Costs

The Company included estimated ongoing financing costs of \$1,012,900 annually in the proposed structure presented in its petition for a financing order. This amount approximates the \$1,166,804 lower end of the range of estimated ongoing financing costs shown in Document No. BB-1. As discussed above, the difference relates to refinement of the estimates subsequent to the date the Company requested Morgan Stanley model the proposed structure.

The basis for estimating each line of the estimated ongoing financing costs schedule is discussed below.

Servicing Fee – Line 1

The lower end of the range is computed at 5 basis points which the Company observed in the 2013 APC IAL and assumes the Company remains the servicer (note the 2014 CEC filing assumed a servicing fee of 10 basis points). The upper end of the range is computed at 60 basis points which assumes an alternative servicer is utilized.

Return on Invested Capital – Line 2

The estimate represents the process observed in the 2007 Allegheny (Monongahela Power) West Virginia transaction. The return is calculated as the coupon interest rate on the longest maturing tranche. This rate of 3.68 percent is included in the preliminary nuclear asset-recovery bond capital structure as shown in Document No. PC-1. Refer to DEF's proposed financing order for more information.

Administration Fee – Line 3

The lower end of the range represents the amount observed in the 2014 filing for CEC. The upper end of the range represents the amount observed in the 2013 APC IAL.

Auditor Fee – Line 4

The lower end of the range represents the amount observed in the 2013 filing for APC (note the 2013 APC IAL which includes auditor fees of \$75,000 was obtained after testimony and exhibits were substantially complete). The upper end of the range represents the amount observed in the 2014 filing for CEC. The company received an estimate of \$35,000 - \$100,000 from Deloitte, its existing external auditor, after testimony and exhibits were substantially complete.

Regulatory Assessment Fees – Line 5

The amount is calculated as 0.072% of the annual revenue requirement of \$101,156,644.

Legal Fees – Line 6

The estimates represent the amount observed in the 2013 APC IAL.

Rating Agency Surveillance Fees – Line 7

The amount is based on quotes received from each of the three rating agencies.

Trustee Fees – Line 8

The lower end and upper end of the range represents the amount observed in the 2013 APC IAL. The company received an estimate of \$12,900 (trustee fee of \$5,400 and depository agent fee of \$7,500) from its existing mortgage indenture trustee after testimony and exhibits were substantially complete.

Independent Manager Fees – Line 9

The lower end of the range represents the amount observed in the 2013 APC IAL. The upper end of the range provides for scaling of this fee above the amount observed in the 2014 filing for CEC given the relative size and complexity of the Company's proposed nuclear asset-recovery bond issuance.

Miscellaneous Fees and Expenses – Line 10

The lower end of the range represents the amount observed in the 2014 filing for CEC. The upper end of the range represents the amount observed in the 2013 APC IAL.