BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

Docket No. E-2, Sub 1262
Docket No. E-7, Sub 1243

In the Matter of:

Joint Petition of Duke Energy Carolinas, LLC and Duke Energy Progress, LLC Issuance of Storm Recovery Financing Orders	))))	TESTIMONY OF REBECCA KLEIN PRINCIPAL, KLEIN ENERGY LLC

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

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Direct Testimony of

Rebecca Klein, Klein Energy LLC

December 21, 2020

INDEX TO TESTIMONY

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Rebecca Klein, Klein Energy LLC, 611 S. Congress Avenue, Suite 125, Austin, Texas 78704.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am Principal of Klein Energy LLC, which specializes in regulatory representation and strategic entry and/or growth in domestic and international power markets.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes. I am sponsoring the following exhibits:

Klein Exhibit 1, the Financing Order dated August 5, 2002, issued by the Public Utility Commission of Texas in Docket No. 25230.

Klein Exhibit 2, the Financing Order (Order No. PSC-15-0537-FOF-EI) dated November 19, 2015, issued by the Florida Public Service Commission in Docket Nos. 150171-EI and 150148-EI.

Klein Exhibit 3, photocopies of "Asset Securitization Report – RRB sector leader Texas aims to set best practices," dated July 21, 2003; "Asset-Backed Alert," dated September 5, 2003; and "Asset Securitization Report, Oncor Electric Revitalizing an entire asset class," dated December 1, 2003.

Klein Exhibit 4, a redacted copy of the "lowest nuclear asset recovery charge" certification delivered by a bookrunning underwriter for Duke Energy Florida's 2016 issuance of securitized nuclear asset recovery bonds.

In addition, except as otherwise defined in this testimony, terms have the meanings assigned to them in the Glossary, attached as the final exhibit to the testimonies of Public Staff witnesses Joseph Fichera and Paul Sutherland.

Q. BRIEFLY PROVIDE AN OVERVIEW OF YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I am a graduate of Stanford University with a Bachelor of Arts degree in Human Biology. In addition, I received my Master's degree in National Security Studies at Georgetown University, earned a Juris Doctorate at St. Mary's University in San Antonio, Texas and am currently pursuing an Executive MBA at Massachusetts Institute of Technology. In 1996, I was admitted to practice law in Texas. I am also a retired Lieutenant Colonel in the U.S. Air Force Reserve. During this period of national service, I was awarded the National Defense and Southwest Asia Service Ribbons for service in Saudi Arabia during Desert Shield/Desert Storm.

From 2001-2004, I served as a Commissioner and also as Chair of the Public Utility Commission of Texas (PUCT), during which time I helped oversee the competitive restructuring of the State's $36 billion power market and the establishment of the PUCT's multibillion dollar Ratepayer-Backed Bond program in the state involving the first three ratepayer-backed bond offerings for three different utilities and approximately $3 billion in bonds. Prior to my appointment to the PUCT in 2001, I served as a Policy Director for then-Governor George W. Bush, engaging in a variety of statewide issues and projects in the areas of telecommunications, energy, housing, technology, and banking. I was also Chair and Vice Chair

of the Board of the Lower Colorado River Authority, a public power entity that owns generation and transmission assets and manages hydro and other water assets in Texas. From 1988 to 1993, I worked in Washington, DC. I served as a Legislative Liaison Action Officer for the Secretary of the Air Force; as Associate Director, Office of Presidential Personnel in the White House of President George H.W. Bush; and as an Associate Director of the U.S. Trade and Development Agency, during which time I oversaw agency accounts in various multi-lateral banks. Presently, I sit as a member of the Board of Directors for a publicly traded utility, Avista Corporation, as well as a private corporation responsible for commercialization of renewable energy technologies.

Q. PLEASE DESCRIBE THE NATURE OF YOUR RELATIONSHIP WITH SABER PARTNERS.

A. Since 2006, I have been a member of the Advisory Board of Saber Partners, LLC (Saber Partners or Saber). Members of the Advisory Board make themselves available to Saber's senior management from time to time to give their perspective on issues in which Saber is involved. Members of the Advisory Board have no management or operational responsibility for Saber Partners. I often share my knowledge with Saber management on regulation and energy issues from a public policy point of view and from both the state and federal level perspective based on my extensive experience in those areas.

From time-to-time I also share with Saber my experience as Chair of the PUCT.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will explain the importance and the benefits of adhering to a **lowest storm recovery charge** standard when establishing a new Ratepayer-Backed Bond program and throughout all stages of structuring, marketing and pricing the proposed storm recovery bonds. My testimony also explains some of the actions that we took at the PUCT in tandem with our independent financial advisor that in fact resulted in the lowest transition bond charges consistent with market conditions and the terms of the Financing Orders. I will also discuss why the PUCT, having statutory fiduciary duty to the public interest, chose to retain a financial advisory team that was proactive and that would act as a co-lead with the utility throughout the transaction lifecycle. A fiduciary is required to act solely in the best interests of the beneficiary without regard to the fiduciary's own financial or other interests. Furthermore, I will explain the benefits of having a financial advisor, who is directed by an agency whose core responsibility is with consumer interest obligations, to act as an equal joint decision maker in collaboration with the utility involved in the Ratepayer-Backed Bond transactions. My testimony is based on my direct experience with three Ratepayer-Backed Bond transactions while Chair of the PUCT and participation with Saber's Advisor Board

Ratepayer-Backed Bond securitization transactions in Florida in 2006 and 2016 and West Virginia 2007 and 2009. My Florida experience related to the first use of Ratepayer-Backed Bonds in that state, to finance storm damage costs and to the second use of Ratepayer-Backed Bonds in that state, to finance the remaining costs of a nuclear generating plant which was retired early. My West Virginia experience related to the first use of Ratepayer-Backed Bonds in that state, to finance the costs of air pollution control facilities at a coal-fired generating plant.

ESTABLISHING A STORM RECOVERY BOND PROGRAM BASED ON RATEPAYER-BACKED BOND "BEST PRACTICES"

Q. DURING YOUR TERM WITH THE PUCT, WERE ANY RATEPAYER-BACKED BOND TRANSACTIONS COMPLETED?

A. Yes. Three transactions were completed with active commission oversight during my tenure at the PUCT. Two transactions were done pursuant to Financing Orders issued by my predecessors and one pursuant to a Financing Order that I approved as a member of the PUCT. These transactions involved the issuance of Ratepayer-Backed Bonds referred to as "transition bonds" in Texas. Approximately $747 million in transition bonds were issued for Reliant Energy in 2001, $797 million in transition bonds were issued for Central Power and Light in 2002, and $1.3 billion in transition bonds were issued for Texas Utilities (Oncor) in 2003 and 2004.

Q. WERE THOSE TEXAS "TRANSITION BONDS" SIMILAR TO THE STORM RECOVERY BONDS PROPOSED BY DUKE ENERGY CAROLINAS, LLC (DEC) AND DUKE ENERGY PROGRESS, LLC (DEP) IN THIS PROCEEDING?

A. Yes. One overarching similarity between the storm recovery bonds proposed by DEC and DEP (the Companies) and the Texas "transition bonds" is that ratepayers bear the full economic burden of repaying the bonds. This is why they are often referred to as "Ratepayer-Backed Bonds." The utilities receive the proceeds determined through separate proceedings but the ratepayers are responsible for costs of issuance and principal interest on the bonds with no further review by the commission after the bonds are issued. This particular similarity is important because, as my testimony will explain, ratepayer interests in Ratepayer-Backed Bond transactions would not be represented but for the standards and actions incorporated into the transaction process by the regulator.

Q. PRIOR TO THOSE THREE "TRANSITION BOND" TRANSACTIONS, DID THE PUCT SPECIFICALLY APPROVE ANY OTHER TYPES OF FINANCINGS FOR UTILITIES UNDER ITS JURISDICTION?

A. No. Traditional financings and financing costs were under each utility's general cost of capital proceeding and were subject to a retrospective prudence review process by the PUCT in general rate

cases. The utilities and their shareholders were directly accountable for all their debt costs and their capital structure under the general review process. If either item (debt level or cost of debt) was found to be imprudent, an adjustment would be made to the cost of capital.

Q DID THE PUCT TREAT "TRANSITION BOND" TRANSACTIONS DIFFERENTLY THAN IT TREATED TRADITIONAL UTILITY BONDS OF THE INVESTOR-OWNED UTILITIES THAT YOU OVERSAW AS THE REGULATOR IN COST OF CAPITAL PROCEEDINGS AND RATE CASES?

A. Yes.

Q. WHY WERE THE TEXAS "TRANSITION BONDS" TREATED DIFFERENTLY?

A. The normal incentives to minimize waste and eliminate inefficiencies that are inherent in traditional rate cases are absent with Ratepayer-Backed "transition bonds." Therefore, the PUCT's authority to correct any problems it discovered was severely limited. State law required the PUCT to issue an irrevocable Financing Order in which the utility is insulated from any and all costs associated with the financing. The PUCT was also required to approve an irrevocable process called a "True-up Mechanism" that committed the PUCT periodically to raise or lower the charge that supports the bonds to whatever level is necessary to pay the bonds' principal and interest on time. In

addition, the State of Texas and the PUCT were required to pledge to the bondholders never to take or permit any action to be taken that would interfere with the bondholders' right to payment. This regulatory guarantee is an extraordinary use of the powers of state regulation. These items – the irrevocable Financing Order; the True-up Mechanism, and the pledge to bondholders – are all similar to legal obligations that the North Carolina statute requires for storm recovery bonds. In Texas, we adhered to these key commitments. They are essential in securing a AAA bond rating, which in turn mitigates debt costs and provides the opportunity, not a guarantee, for the lowest cost structure for ratepayers, as explained in further detail below.

Q. WHY WAS AN IRREVOCABLE FINANCING ORDER REQUIRED WITH A TRUE-UP MECHANISM?

A. The Texas legislature required a True-up Mechanism because the Texas utilities sponsoring the Texas securitization legislation advised that a True-up Mechanism was necessary to allow the "transition bonds" to be rated by the credit rating agencies at the highest category, "AAA," and make the "transition bonds" more attractive to investors. This feature would alleviate Underwriter and investor concerns (articulated by the credit rating agencies) that a future commission would make a determination that the financing was imprudent, much like a commission's ongoing retrospective review

authority over traditional utility debt. The PUCT's independent financial advisor advised the PUCT that this was a correct analysis – that a True-up Mechanism was necessary to allow the "transition bonds" to be rated by the credit rating agencies at the highest category, "AAA".

Q WHY DID THE TEXAS LEGISLATURE AND THE PUCT BELIEVE THAT AN "AAA" RATING WAS NECESSARY?

A. The Texas utilities advised the Texas legislature and the PUCT that a "AAA" bond rating could result in the lowest possible interest rate on the "transition bonds." The PUCT's financial advisor supported this analysis. An "AAA" rating demonstrates to potential investors that the "transition bonds" are not very risky. The lower the risk, the lower the interest rate commanded by Underwriters and investors. Consequently, the credit rating is an important factor that allowed "transition bonds" to be sold to investors at the lowest possible interest rate at a given point in time and in turn at the lowest transition bond charges to Texas ratepayers.

Q. DID THE PUCT IMPOSE OTHER CONDITIONS OR PROVISIONS IN ITS FINANCING ORDERS TO IMPROVE THE

MARKETABILITY OF TEXAS "TRANSITION BONDS" AND LOWER THE OVERALL COST TO RATEPAYERS?

A. Yes. The Texas statute required that the "structuring and pricing" of transition bonds result in the lowest transition bond charges consistent with market conditions. In its Financing Orders, the PUCT also required that the "marketing" of transition bonds result in the lowest transition bond charges consistent with market conditions.

In addition, the PUCT's Financing Orders directed its financial advisor in each transaction in which I was involved to be actively engaged throughout the transaction process in order to adhere to a lowest transition bond charge standard. Examples of the proactive initiatives the independent financial advisor undertook to help us reach our "lowest transition charge" mandate include: 1) insisting that any servicing fees and administration fees in excess of actual incremental costs be rebated or credited to ratepayers; 2) identifying any potential conflicts that may arise between the utility, the Underwriter and the utility's advisor; 3) participating fully and in advance in all aspects of structuring, marketing and pricing the "transition bonds"; 4) challenging any decision it believes might not result in lowest transition bond charges to ratepayers; and 5) requiring certifications from the Companies, the bookrunning underwriter(s) and the PUCT's financial advisor that the structuring, marketing and pricing of the transition bonds in fact resulted in the

lowest transition bond charges consistent with market conditions at the time the transaction priced and the terms of the Financing Order (see Klein Exhibit 4). Public Staff witnesses Hyman Schoenblum, Paul Sutherland and Joseph Fichera have outlined more fully in their testimonies these conditions and provisions that were adopted and implemented in connection with the Texas "transition bonds" to lower the transition bond charges to ratepayers in Texas. Klein Exhibits 1 and 2 provide two Financing Orders exemplifying these required conditions. Klein Exhibit 1 is the PUCT's 2002 Financing Order which authorized the Texas Oncor securitized "transition bond" transaction, with yellow highlighting indicating language which implements "best practices" recommended by Saber Partners. Klein Exhibit 2 is the Florida Public Service Commission's 2015 Financing Order which authorized Duke Energy Florida's securitized nuclear asset recovery bonds, again with yellow highlighting indicating language which implements "best practices" recommended by Saber Partners. The Florida commission used the PUCT's 2002 Financing Order as its template.

Q. IN WHAT WAYS DO YOU BELIEVE YOUR EXPERIENCE WITH TEXAS "TRANSITION BONDS" SHOULD INFORM THE NORTH CAROLINA UTILITIES COMMISSION AS IT PREPARES A

FINANCING ORDER FOR THE PROPOSED STORM RECOVERY BONDS?

A. Absent a pro-active approach by an entity having specific statutory responsibilities to consumers, the North Carolina ratepayers will not be represented meaningfully in the process of structuring, marketing and pricing the bonds. Without adherence to a clear, unqualified lowest storm recovery charge standard by the North Carolina Utilities Commission (Commission) and adoption of practices, procedures and advice from an independent financial advisor, it will be difficult to hold utilities and Underwriters of storm recovery bonds accountable for any failure to achieve the best possible outcome for ratepayers. It is important to remember: The Commission gives up all further review of the charges imposed on ratepayers once the bonds are issued and non-bypassable charges imposed on ratepayers. Payment of all principal, interest and other financing costs are paid directly by ratepayers. Every dollar is a ratepayer dollar. Moreover, with the True-up provision, the Commission must guarantee to adjust the charge to whatever level is necessary to repay the bonds on time. There is no chance to look back as with traditional utility bonds and cost of capital.

Q. IN YOUR OPINION, SHOULD THESE OTHER CONDITIONS OR PROVISIONS BE IMPOSED TO IMPROVE THE MARKETABILITY OF NORTH CAROLINA STORM RECOVERY BONDS AND

LOWER THE SECURITIZED CHARGES TO NORTH CAROLINA RATEPAYERS?

A. Yes. In my experience with three Ratepayer-Backed Bond transactions in Texas, the PUCT was able to realize an average ratepayer savings for the three transactions of $23 million ($17 million net present value taking into account all costs), as compared to the pricing of other Ratepayer-Backed Bonds during the same time frame. See Sutherland Exhibit 3 and witness Sutherland's description thereof. I believe that these substantial ratepayer savings resulted directly from the PUCT's steadfast adherence to the lowest transition charge standard that was fully aligned with ratepayer interests. Further, these ratepayer savings were directly attributable to the fact that the PUCT, supported by the specialized expertise of its financial advisor, was actively involved in developing and implementing the terms, conditions and provisions of each facet of the transaction process. The testimony of Public Staff witness Sutherland explains in more detail how these transactions priced relative to other investor-owned utility Ratepayer-Backed Bond transactions. As Mr. Sutherland explains with specificity, the superior outcome of these initial Texas Ratepayer-Backed Bonds has been confirmed by several other industry observers when compared to Ratepayer-Backed Bond transactions in other states that did not take a similar approach. The success of the Texas approach was also

noted by independent financial press reports at the time, particularly the 2003 Oncor Ratepayer-Backed Bond offering. In Klein Exhibit 3, I have attached copies of several of these articles from third party observers.

Q. DID THE TEXAS STATUTE WHICH AUTHORIZED RATEPAYER-BACKED BONDS DIRECT THE PUCT TO APPLY A STANDARD TO ENSURE THAT BENEFITS FROM THE LEGISLATION AND THE FINANCING ORDER TO TEXAS RATEPAYERS WOULD BE MAXIMIZED?

A. Yes. The Texas statute required the PUCT to ensure that the structuring and pricing of the securitized "transition bonds" resulted in the lowest transition bond charges consistent with market conditions and the terms of the Financing Order. After public hearings on the proposed Texas Ratepayer-Backed Bond program, the PUCT determined that effective marketing of transition bonds would be integral to a successful pricing of transition bonds; therefore, the PUCT Financing Orders made express that the "structuring, marketing and pricing" of the transition bonds must result in the lowest transition bond charges consistent with market conditions and the terms of the Financing Order. The Texas statute, like the North Carolina statute, directs the PUCT to evaluate Financing Order petitions and add the necessary conditions to protect ratepayer interests while validating the necessary funds to be

given to the utility. We acted in our fiduciary role for both ratepayer and utility interests.

Q. WHY IS AN UNQUALIFIED "LOWEST SECURITIZATION CHARGE" STANDARD IMPORTANT?

A. A lowest securitization charge standard sets the appropriate benchmark on behalf of the ratepayer. I fully acknowledge that there are no absolutes in this world. Nevertheless, the lowest securitization charge standard is a prudent and reasonable objective that should be treated as the "guiding star" in every phase of the transaction cycle not only for the Commission, but also for the utility and in the context of negotiations with Underwriters and investors.

Q IN THE ABSENCE OF A SPECIFIC STATUTORY MANDATE, WHAT WOULD YOU HAVE DONE AS A PUCT COMMISSIONER?

A. The same thing. Even if this statutory mandate had not been included in the Texas legislation, I would have pursued the lowest cost to ratepayers for the very simple reason that this was the PUCT's fundamental responsibility to ratepayers under our general statutes. I would have felt particularly strongly about this in any situation where the intrinsic nature of a transaction does not account for ratepayer interests in equal measure as the sponsoring utility, as is the case in this proceeding.

Q. ARE RATEPAYER INTERESTS CLEARLY ALIGNED WITH THE COMPANIES' INTERESTS IN THIS CASE?

A. No. In Ratepayer-Backed Bond transactions generally, the utility has an interest in closing the transaction as expeditiously as possible, even if that requires the utility to settle for less than the lowest storm recovery charges to ratepayers. In each of the Ratepayer-Backed Bond transactions in which I was involved, the utility was to receive hundreds of millions of dollars but without any direct or indirect obligation to pay it back. The utility's interests were already protected by the nature of the transaction. While the utility had a general interest in keeping overall customer rates low, the utility had another, more immediate and compelling interest in getting the proceeds as quickly as possible. This eliminates the uncertainty over the recovery of funds and gives the utility the proceeds from the bonds to use in their business operations to help maximize returns for shareholders. I have no reason to believe that the Companies' interests in this transaction would be any different. Having said that, there is no reason why ratepayer interests and the Companies' interest cannot be aligned in light of the fact that any savings that could benefit ratepayers do not affect the amount the utilities will receive as part of the securitized amount. However, it is important that ratepayers be represented at the negotiating table with the utility when it enters the market and negotiates with Underwriters and investors whose

interests are clearly not aligned with either the utility or the ratepayers.

Q. DID THE TEXAS UTILITIES SUPPORT ACTIVE INVOLVEMENT OF THE PUCT'S EXPERTS IN THE PROCESS AND IN THE NEGOTIATIONS WITH UNDERWRITERS?

A. The Texas utilities eventually did support the active involvement of the PUCT, particularly when they realized the PUCT's steadfast resolve to adhere to a process that increased the probability of realizing the lowest cost standard. There was some pushback during the course of discussions to negotiate the best terms for Texas ratepayers — rather than just follow what other utilities and their bankers were doing in other states. We viewed this as a natural part of the robust negotiating process in the capital markets. However, with the PUCT's firm commitment and support to the process, the transactions were completed, the utilities received their proceeds and the ratepayers were optimally protected.

Q. DOES THE NORTH CAROLINA STATUTE AUTHORIZING SECURITIZATION OF STORM RECOVERY COSTS HAVE AN EXPRESSLY STATED REQUIREMENT THAT THE COMPANIES

STRIVE TO ACHIEVE THE "LOWEST STORM RECOVERY CHARGES"?

A. Yes. I have reviewed the North Carolina statute authorizing storm recovery costs. N.C. Gen. Stat. § 62-172(b)(3)b. directs the Commission in its Financing Order to determine if the "structuring and pricing" of storm recovery bonds are "reasonably expected" to result in the "lowest storm recovery charges" consistent with market conditions at the time the storm recovery bonds are priced and the terms of the Financing Order. It also directs the Commission to include in its Financing Orders "[a]ny other conditions not otherwise inconsistent with this section that the Commission determines are appropriate."

Q. YOU STATED THAT N.C. GEN. STAT. § 62-172(b)(3)b. DIRECTS THE COMMISSION TO INCLUDE IN ITS FINANCING ORDERS "ANY OTHER CONDITIONS NOT OTHERWISE INCONSISTENT WITH THIS SECTION THAT THE COMMISSION DETERMINES ARE APPROPRIATE." BASED ON YOUR OVERSIGHT OF THE INITIAL THREE RATEPAYER-BACKED BOND ISSUES AS CHAIR OF THE PUCT, SHOULD THE COMMISSION'S FINANCING ORDERS INCLUDE ADDITIONAL TERMS,

CONDITIONS AND PROCEDURES DESIGNED TO ACHIEVE THE "LOWEST STORM RECOVERY CHARGES"?

A. Yes. The Commission's Financing Orders should require the "structuring, marketing and pricing" of storm recovery bonds result in the lowest storm recovery charges consistent with market conditions at the time storm recovery bonds are priced and the terms of the Financing Order. I also believe the Commission's Financing Orders should require compliance certificates to be delivered by the Companies, the Public Staff or its financial advisor, and the book-running manager after pricing stating that the "structuring, marketing and pricing" of storm recovery bonds in fact have resulted in the lowest storm recovery charges consistent with market conditions at the time storm recovery bonds are priced.

JOINT DECISION-MAKING AUTHORITY WITH SUPPORT FROM AN INDEPENDENT FINANCIAL ADVISOR

Q. SHOULD THE COMMISSION'S FINANCING ORDERS INCLUDE OTHER ADDITIONAL TERMS, CONDITIONS AND PROCEDURES DESIGNED TO ACHIEVE THE "LOWEST STORM RECOVERY CHARGES"?

A. Yes. In my view, and based on my oversight of three Ratepayer-Backed Bond issues as Chair of the PUCT, it will be difficult or perhaps even impossible for the Commission to make this after-the-fact determination that the structuring, marketing and pricing of the

Companies' offerings achieved the "lowest storm recovery charge" with confidence unless the Commission Staff, the Public Staff and an independent financial advisor are involved as joint decision makers in all aspects of the structuring, marketing and pricing of the storm recovery bonds through the time when the utilities file their issuance advise letters and when the Commission has authority to disapprove the bond offering. Receiving only timely information and updates from the utilities and Underwriters as currently proposed by the joint petition is not enough.

Q. HOW DID THE PUCT PROTECT THE PUBLIC INTEREST AND ASSURE ITSELF THAT IT MET ITS LEGISLATIVE DUTY?

A. For the three Texas "transition bond" transactions I oversaw as Chair of the PUCT, we established a process of active and involved oversight throughout the transaction lifecycle. The PUCT was a joint decision maker with the sponsoring utility in all matters relating to the structuring, marketing, and pricing of the "transition bonds." We expected the utility to work on a collaborative basis with PUCT staff and the PUCT's independent financial advisor to ensure a successful transaction at the lowest storm recovery charge to ratepayers.

PUCT staff and the PUCT's independent financial advisor also participated actively and were joint decision makers with the utility in the process of structuring, marketing and pricing the "transition bonds." They acted as an informal "Bond Team." In addition, the

PUCT required a detailed issuance advice letter process and certification of what was done during the transaction, the choices made and the efforts expended, explaining how these efforts led to the lowest transition bond charges to ratepayers.

IMPLEMENTING A FIDUCIARY DUTY TO RATEPAYERS

Q. DO THE STATE OF TEXAS STATUTES PROVIDE FOR A DIVISION OF THE PUCT OR A SEPARATE STATE AGENCY TO REPRESENT THE INTERESTS OF ALL ELECTRIC RATEPAYERS?

A. No. Whereas, Chapter 13 of the Texas Public Utility Regulatory Act establishes a separate Office of Public Utility Counsel to advocate specifically for residential and small commercial electric ratepayers, the Texas statutes do not provide for a particular division of the PUCT nor a separate state agency to represent the interests of **all** electric ratepayers.

Q. N.C. GEN. STAT. § 62-15(b) ESTABLISHES WITHIN THE COMMISSION A PUBLIC STAFF TO REPRESENT THE INTERESTS OF THE ENTIRE "USING AND CONSUMING PUBLIC" THROUGHOUT NORTH CAROLINA. THE PUBLIC STAFF IS AN INDEPENDENT AGENCY WHICH IS NOT SUBJECT TO THE SUPERVISION, DIRECTION, OR CONTROL OF THE COMMISSION. N.C. GEN. STAT. § 62-15(d) STATES "IT SHALL

BE THE DUTY AND RESPONSIBILITY OF THE PUBLIC STAFF TO: . . . INTERVENE ON BEHALF OF THE USING AND CONSUMING PUBLIC, IN ALL COMMISSION PROCEEDINGS AFFECTING THE RATES OR SERVICE OF ANY PUBLIC UTILITY". DO YOU BELIEVE IT WOULD BE APPROPRIATE TO INCLUDE THE PUBLIC STAFF IN ANY "BOND TEAM" ESTABLISHED BY THE COMMISSION'S FINANCING ORDERS TO PARTICIPATE ACTIVELY AND BE JOINT DECISION MAKERS WITH THE COMPANIES IN THE PROCESS OF STRUCTURING, MARKETING AND PRICING THE STORM RECOVERY BONDS?

A. Yes. As petitioners, the Companies are parties to the Commission proceeding and are expected to participate on the Bond Team with a view to protecting their own interests. I believe Public Staff's participation on the Bond Team would enhance the symmetry of ratepayer interests and viewpoints. The testimonies of Public Staff witnesses Schoenblum and Fichera discuss this as well. The Public Staff, given its express legislative mandate to advocate and protect ratepayers, should also be included as a member of the Bond Team.

Q. DO YOU BELIEVE THE RATEPAYER-BACKED BOND TRANSACTIONS WHICH YOU OVERSAW AS CHAIR OF THE PUCT WERE SUCCESSFUL IN MAXIMIZING BENEFITS TO TEXAS RATEPAYERS?

A. Yes.

Q. WHAT IS THE BASIS FOR YOUR BELIEF?

A. The Texas Financing Orders required the utility to file a detailed set of analyses and representations called an "issuance advice letter" about the pricing of the bonds, documenting the benefits of the transaction to ratepayers.

The PUCT also established a detailed procedure of active due diligence on the part of its staff and expert advisors. These staff and expert advisors were assigned to present to the PUCT their review of the issuance advice letter once filed, as well as their assessment of whether the structuring, marketing, and pricing of the "transition bonds" in fact achieved the lowest transition bond charges to ratepayers consistent with market conditions and the terms of the applicable Financing Order. For each transaction, the PUCT noticed a hearing within two business days after pricing for the purpose of issuing a stop order if the PUCT was not convinced that the lowest transition bond charge objective in fact had been achieved.

Throughout the period leading up to pricing, and continuing for two business days after pricing, the PUCT reviewed this pricing information with staff and decided whether to issue a stop order. The due diligence review was both in real time and after-the-fact, so that the PUCT's hands would not be tied as a practical matter. The PUCT

also reviewed specific lowest transition bond charge certifications as to the structuring, marketing, and pricing of the bonds from the utility, as well as from the Underwriters and from independent experts without any potential conflicts of interest. The factors considered by the PUCT included (a) pricing relative to benchmark securities; (b) pricing relative to other similar securities at the time of pricing, and (c) the amount of orders received and from whom.

Attached to my testimony is an issuance advice letter used in one of the Texas "transition bond" transactions I oversaw as Chair of the PUCT. See Klein Exhibit 1.

Q. DID THE PUCT USE OUTSIDE ADVISORS IN CONNECTION WITH THOSE RATEPAYER-BACKED BOND TRANSACTIONS?

A. Yes. The PUCT realized it did not have the expertise on staff for this assignment, so we brought in an expert independent financial advisor without any potential for conflicts of interest. As part of this engagement, through its financial advisor, the PUCT also had the benefit of outside legal counsel of Orrick, Herrington & Sutcliffe LLP, as the Public Staff does here. The PUCT acted by and through these advisors to ensure that the ratepayers' interests were protected. Personally, I felt it was my fiduciary duty to the public interest to engage an independent financial advisor to guide us through all stages of these initial Ratepayer-Backed Bond transactions. Being a lawyer, I had no knowledge or experience in this complex area of

finance. Nor did my fellow commissioners. The PUCT finance staff was experienced with traditional regulator financial matters. However, securitized Ratepayer-Backed Bond transactions were new to us all. It was helpful to have outside expertise help the PUCT establish an understanding and culture of Ratepayer-Backed Bond best practices that the PUCT could then utilize on its own in future Ratepayer-Backed Bond transactions.

STRUCTURING, MARKETING AND PRICING WITH CERTIFICATIONS FROM UTILITY, UNDERWRITERS AND AN INDEPENDENT ADVISOR

Q. DID THE PUCT AND THE PUCT'S FINANCIAL ADVISOR PLAY AN ACTIVE ROLE IN STRUCTURING, MARKETING, AND PRICING THE RATEPAYER-BACKED BONDS?

A. Yes. The PUCT's financial advisor was diligent in identifying areas in which ratepayer costs could be reasonably mitigated within the context of prevailing market conditions. The PUCT's financial advisor was also meticulous in providing the PUCT with cost comparisons between the then-current transaction and the same costs in past Ratepayer-Backed Bond transactions so that the PUCT could have a framework in which to make decisions on terms, conditions, marketing, and timing. This type of active participation on the part of the financial advisor helped the PUCT meet its goal of ensuring the lowest transition bond charge standard was met.

Q. DID THE PUCT REQUIRE A LOWEST TRANSITION BOND CHARGES CERTIFICATION FROM ITS FINANCIAL ADVISOR?

A. Yes. In the open meeting on February 25, 2000, the PUCT discussed the need for an independent financial advisor to provide a fully accountable opinion or certification as to the lowest cost of funds as one item the PUCT would examine in deciding whether to approve the transaction immediately after pricing. The PUCT understood that the work required to give that certification was substantial and could add to the cost of the transaction. However, the PUCT believed the benefits would exceed the costs and that the certification, like an insurance policy, would provide protection that our mandate would be met.

Q. DO YOU THINK IT IS APPROPRIATE FOR THE COMMISSION TO REQUIRE CERTIFICATIONS THAT THE LOWEST STORM RECOVERY CHARGE HAS, IN FACT, BEEN ACHIEVED?

A. Yes. The PUCT lowest cost certifications were required, pursuant to the Financing Order, from the sponsoring utility, the lead Underwriter and the PUCT's independent financial advisor in each of the three transition bond issues I oversaw as Chair of the PUCT. I believe the requirement that these lowest transition bond charge certifications be delivered was an important element in achieving superior results in each of those three transactions for the benefit of Texas ratepayers. It was important to us that the independent financial

advisor who had a fiduciary duty to the PUCT and ratepayers deliver the certification. They had no financial interest in the outcome of the bond offering, unlike the utilities and the Underwriters. Their opinion was the core component of the Financing Orders that established the Ratepayer-Backed Bond program. Public Staff witnesses Schoenblum and Moore also discuss the need for, and relevance of, independent advisor opinions in financial transactions when someone acting in a fiduciary role must make a decision affecting the interests of the people it represents. In this case, it was the PUCT acting for the ratepayers.

Q. IN YOUR EXPERIENCE, DID THE DIVISION OF RESPONSIBILITIES PROPOSED BY SABER PARTNERS AND THE RESULTING INCENTIVE STRUCTURE LEAD TO A COLLABORATIVE AND COLLEGIAL PROCESS?

A. Yes. It should be the same in this case as well, but only if the sponsoring utility and the Underwriters are dedicated to, and do not resist or undermine, a collaborative and collegial process. But my answer would be “No” if the sponsoring utility and/or the Underwriters are determined to resist or undermine a collaborative and collegial process.

Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THAT COLLABORATIVE AND COLLEGIAL PROCESS WORKED TO THE BENEFIT OF RATEPAYERS IN THE TEXAS "TRANSITION BOND" TRANSACTIONS?

A. Yes. As explained in greater detail in the testimonies of Public Staff witnesses Sutherland, Heller and Fichera, Ratepayer-Backed Bonds represent a joint and several liability of all ratepayers which is a unique characteristic of Ratepayer-Backed Bond structures. In addition, such bonds are structured with a True-up Mechanism contained in the Financing Order. This mechanism allows the storm recovery charge to be adjusted at least semi-annually, pursuant to a pre-approved formula, to ensure the principal and interest is paid on time. 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. This also protects against increases in write-offs and delinquencies. A number of prior Ratepayer-Backed Bonds have been offered pursuant to SEC registration statements which provided detail about the unusual and superior credit quality of the securities. For example, the U.S. Securities and Exchange Commission registration statement for securitized "transition bonds" issued in 2004 for the benefit of Texas Utilities included the following language:

> The broad-based nature of the true-up mechanism and the State Pledge will serve to effectively eliminate, for all practical purposes and circumstances, any credit risk to the payment of the transition bonds (i.e., that sufficient funds will be available and paid to discharge the principal and interest obligations when due).[1]

Saber's records indicate that this description of the "credit risk" was proposed by Hunton & Williams, legal counsel to Texas Utilities.

Q. WHAT WOULD MAXIMIZE THE CHANCE OF THE PROCESS BEING COLLABORATIVE AND COLLEGIAL IN THE PROPOSED STORM RECOVERY BOND TRANSACTION?

A. The Commission should clarify that ultimate decision-making authority for all aspects of structuring, marketing and pricing the proposed storm recovery bonds rests with a designated member of the Commission, and that day-to-day decision-making authority rests with a Bond Team which includes designated Commission Staff, the Public Staff, their respective financial advisors, and the utilities. In their testimonies in this proceeding, Public Staff witnesses Schoenblum and Fichera discuss this Bond Team approach. This ensemble represents the voices of all interested parties and can collaboratively achieve the "lowest storm recovery charge" mandate through robust and transparent negotiation.

[1] TXU Electric Delivery Transition Bond Company LLC. Issuer, Oncor Electric Delivery Company, Seller and Servicer, Transition Bonds, dated May 28, 2004, Prospectus at page 56 (https://www.sec.gov/Archives/edgar/data/1100179/000095012004000393/d598648.txt).

Q. DID THE PROCESS FOR STRUCTURING, MARKETING AND PRICING THE THREE ISSUANCES OF SECURITIZED "TRANSITION BONDS" WHICH YOU OVERSAW AS CHAIR OF THE PUCT, AND WHICH APPLIED MANY OF THE "BEST PRACTICES" DESCRIBED BY PUBLIC STAFF WITNESS PAUL SUTHERLAND, INVOLVE ADDITIONAL LEGAL AND FINANCIAL ADVISORY FEES?

A. Yes. The PUCT retained an active financial advisor in each of those three transactions, knowing full well that this likely would involve increased legal and financial advisory fees.

Q. LOOKING BACK, DO YOU BELIEVE THE DECISION TO RETAIN AN ACTIVE FINANCIAL ADVISOR IN EACH OF THOSE THREE TEXAS "TRANSITION BOND" TRANSACTIONS BENEFITED TEXAS RATEPAYERS, NOTWITHSTANDING THAT THOSE RATEPAYERS WERE REQUIRED TO ABSORB MOST OR ALL OF THE COSTS OF THOSE INCREASED LEGAL AND FINANCIAL ADVISORY FEES?

A. Yes. These upfront costs represented an investment in sound legal and financial advice to protect ratepayer interests in negotiations with parties who did not have a fiduciary duty to their interests. All those parties on the other side of the negotiating table were well represented by experts and legal counsel, and there needed to be appropriate checks and balances in the negotiating process. It was

both an investment and an insurance policy. Post-issuance reports submitted to the PUCT by its financial advisor, the Underwriters as well as independent market observers all concluded that all three of those initial Texas Ratepayer-Backed transition bond offerings provided substantial increased overall net present value savings to Texas ratepayers. Detailed information about those overall net present value savings to Texas ratepayers is included in the testimony of Public Staff witness Sutherland.

Q. DO YOU HAVE A CONCLUSION AS TO WHETHER THE INCREMENTAL COSTS OF THE ACTIVE FINANCIAL ADVISOR APPROACH IN TEXAS WERE JUSTIFIED BY SAVINGS IN OVERALL COSTS?

A. Yes. The incremental costs of the active financial advisor approach in each of the three Texas Ratepayer-Backed transition bond transactions I helped oversee as Chair of the PUCT were easily justified by savings in other issuance costs and savings in interest costs. They also provided the PUCT with the assurance that nothing went wrong or was done that was not for the benefit of ratepayers. These are complex transactions, and for a commission to give up future regulatory review and implement the True-up Mechanism on the charges, it is essential to have that assurance.

Q. GIVEN YOUR EXPERIENCES IN TEXAS, WOULD YOU RECOMMEND THAT THE COMMISSION REQUIRE AN INDEPENDENT FINANCIAL ADVISOR TO PLAY AN ACTIVE ROLE IN CONNECTION WITH THE STRUCTURING, MARKETING, AND PRICING OF STORM RECOVERY BONDS?

A. Yes.

OTHER CONDITIONS TO INCLUDE IN A FINANCING ORDER ESTABLISHING A RATEPAYER-BACKED BOND PROGRAM

Q. IN YOUR OPINION, WHAT OTHER ITEMS SHOULD THE COMMISSION CONSIDER IN DECIDING WHETHER TO APPROVE THIS IRREVOCABLE FINANCING ORDER?

A. The Commission should also consider how the structuring, marketing and pricing process will be pursued to maintain the public's trust in the integrity of the process itself. For example, potential conflicts of interest between the utility and the Underwriters should be addressed by the Commission on behalf of ratepayers. The terms and conditions of how storm recovery bonds are sold through Underwriters is also important. Many millions of dollars are at stake in the structuring, marketing and pricing of the bonds, so there should be transparency and accountability throughout the process. The Commission is establishing a program and not just overseeing a transaction. It is important that the initial transaction establish an appropriate template and protocols that can be followed

in future petitions and transactions. This will make most efficient use of the time of Commissioners and Commission Staff time, as well as help establish in-house expertise. Over time we were able to rely less on outside expertise because of the intense investment we made in the beginning. Leveraging the expertise of a "Bond Team" comprised of DEC and DEP, Commission Staff, the Public Staff, and their independent financial advisors will assist substantially in realizing a Ratepayer-Backed Bond process that successfully achieves the lowest storm recovery charge mandate and the best possible result for ratepayers. This is the first of perhaps many other offerings in the future for storm recovery as Public Staff witness Abramson points out in his testimony. It is a financial tool that the Legislature may authorize for other uses in North Carolina. Establishing the program correctly, with clear standards, oversight and involvement of experts with a fiduciary duty to ratepayers as we did in Texas, is critical to the most efficient and effective use of the financial tool for all affected parties.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

DOCKET NO. 25230 **:•ijE.LR,3**

JOINT APPLICATION FOR APPROVAL OF STIPULATION REGARDING TXU ELECTRIC COMPANY TRANSITION TO COMPETITION ISSUES

PUBLIC UTILITY COMM SSION

OF TEXAS

FINANCING ORDER

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DOCKET NO. 25230

JOINT APPLICATION FOR APPROVAL OF STIPULATION REGARDING TXU ELECTRIC COMPANY TRANSITION TO COMPETITION ISSUES	**§**	**PUBLIC UTILITY COMMISSION OF TEXAS**

FINANCING ORDER

This Financing Order addresses the application of TXU Electric Company (the Company) in Docket No. 21527, *Application of TXU Electric Company for Financing Order to Securitize Regulatory Assets and Other Qualified Costs,* to securitize regulatory assets and other qualified costs, for authority to issue transition bonds, for approval of transition charges sufficient to recover qualified costs, and for approval of a tariff to implement the transition charges, as modified on remand in this proceeding. As discussed in this Financing Order, the Commission found that the Company's initial request in Docket No. 21527 to securitize regulatory assets and other qualified costs in an amount of $1.650 billion—because it was based on an analysis of an aggregate amount using nominal dollars—could not be granted since it failed to meet all of the required statutory standards. Notwithstanding the Company's failure and based upon an analysis presented by other parties—one that accounts for the time value of money and evaluates whether any benefits accrue to ratepayers on an asset-by-asset basis—the Commission approved the securitization of regulatory assets and other qualified costs in the amount of approximately $363 million. Various parties appealed portions of the Commission's May 1, 2000 Financing Order and, ultimately, that Order was upheld by the Supreme Court on all but three issues. The remanded proceeded was assigned Docket No. 24892.

On December 31, 2001, a Stipulation and Joint Application for Approval Thereof, Including Request for Expedited Interim Relief ("Stipulation") was filed on behalf of TXU Electric ("Company"), its affiliates, and successors in interest; the Commission Staff ("Staff'); the Office of Public Utility Counsel ("OPC"); the Cities Served by TXU Electric ("Cities");

Texas Industrial Energy Consumers (“ITEC”); Texas Retailers Association; and AES New Energy; all hereinafter referred to as the "Joint Applicants," announcing that the Joint Applicants reached a settlement of numerous issues concerning TXU Electric's transition to competition and related Commission and judicial proceedings. The Stipulation resolves all issues related to TXU Electric's stranded cost recovery, securitization of regulatory assets, excess mitigation, unrecovered fuel balance, fuel reconciliation, wholesale "clawback," retail "clawback," regulatory asset review, and appeals of the Commission's orders in TXU Electric's Unbundled Cost of Service ("UCOS") case (PUC Docket No. 22350), as well as resolving certain judicial proceedings related to Commission orders affecting rates and the transition to retail competition. As part of the Stipulation filed in this proceeding, the Joint Applicants have proposed issuance of $1,300,000,000 of transition bonds. The Commission finds that entry of a financing order that empowers TXU Electric or its successor or assign to issue $1.3 billion of transition bonds to securitize its generation-related regulatory assets as reported by TXU Electric in its 1998 annual report on SEC Form 10-K as regulatory assets and liabilities and other qualified costs is reasonable, and the provisions approved in this Financing Order meet all applicable requirements of the Public Utility Regulatory Act.[1]

Accordingly, the Commission approves the securitization of regulatory assets and qualified costs *as specified* in this Financing Order, and authorizes, subject to the terms of this Financing Order, the issuance of transition bonds in an amount not to exceed $1,300,000,000; approves transition charges in an amount to be calculated as provided in this Financing Order; approves the structure of the proposed securitization financing, as modified by this Financing Order; and approves the form of the Company's tariff, as modified by this Financing Order, to implement those transition charges. As a result of the securitization approved by this Financing Order, customers in the Company's service area will, even at the highest authorized interest rate, realize benefits in excess of approximately $52 million on a present value basis if all $1,300,000,000 of transition bonds are issued. In addition, as a result of this Financing Order the amount of revenues collected by the Company will be reduced in excess of approximately $95

~~Public Utility Regulatory~~ Act, TEX. UTIL. CODE ANN. §§ 11.001-64.158 (Vernon 1998 & Supp. 2002) (PURA).

million, on a nominal basis, when compared to the amount that would have been collected under conventional utility financing methods.

The Public Utility Regulatory Act states that the purpose of allowing securitization financing is to lower the carrying costs of a utility's assets relative to the costs that would be incurred using conventional utility financing methods. It then charges the Commission as follows:

> *The commission shall ensure that securitization provides tangible and quantifiable benefits to ratepayers, greater than would have been achieved absent the issuance of transition bonds.* Public Utility Regulatory Act, Section 39.301.

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Boiled down to its *essence,* the Commission's actions in this docket are based upon a reasoned adherence to this directive from the Legislature. To ensure that ratepayers receive tangible and quantifiable benefits as the result of securitization, the Commission rejected the Company's initial analysis, which evaluated the nominal amount of cost on an aggregate basis. The Commission in its May 1, 2000 Financing Order in Docket No. 21527 found that the Company's method was flawed for two reasons. First, it ignored the time value of money by using nominal values instead of present values. And second, by using an aggregate-based analysis, it allowed certain assets to diminish the benefits resulting from the securitization of other assets, to the detriment of ratepayers. TXU Electric appealed the May 1, 2000 Financing Order and, ultimately, the Texas Supreme Court in *TXU Electric Co. v. Public Utility Commission of Texas,* 51 S.W.3d 275 (Tex. 2001), upheld the discretion of the Commission to apply a present value test in addition to the present value test specifically set forth in PURA, but reversed the Commission and held that such additional present value test should assume recovery of regulatory assets absent securitization would occur in substantially less than 40 years, and further held that in applying the relevant tests the Commission must consider all regulatory assets that the Company requested be securitized in the aggregate and not on an asset-by-asset basis.

This Financing Order results from the Legislature's decision to restructure the retail electric industry in this state and to allow electric utilities to recover stranded costs. Stranded costs are created as a result of the transition to a competitive retail electric market and represent

the excess of the net book value over the market value of generation assets. Under conventional utility regulation, a utility would recover these costs through regulated rates. But in a free-market environment, it cannot charge rates high enough to recover these costs. Consequently, these excess costs are "stranded" because they would not be recovered by a utility in the new competitive retail market. To facilitate the transition to this new market structure, the Legislature decided as a policy matter that utilities should recover these stranded costs.

The Company's application in Docket No. 21527, as modified in the Stipulation in this proceeding, seeks securitization only of regulatory assets, a specific type of stranded cost. Regulatory assets are creations of regulation and only *have* value because a regulator allows the utility to recover the underlying costs of these assets from ratepayers; they have no value in a competitive market.

In Chapter 39 of PURA, the Legislature provided several methods that allow a utility to recover its stranded costs. Securitization financing is only one of these methods. Stranded costs that are not recovered through securitization will be recovered through one of the other mechanisms. Because of the permanent nature of securitization, the Legislature allows this method to be used to recover stranded costs only if certain statutorily prescribed standards are met. One of these standards dictates that ratepayers receive tangible and quantifiable benefits as the result of the securitization.

To ensure compliance with this standard, a true economic analysis that accounts for the time value of money must be used to demonstrate that ratepayers receive tangible and quantifiable benefits. This concept is embodied in the well-known principle that a dollar today is not equal to a dollar next year. An analysis that ignores the time value of money by using nominal sums, as the Company did in its initial filing, cannot calculate whether ratepayers receive a real benefit. When accounting for the time value of money, the Company's initial proposal to securitize $1.650 billion in regulatory assets actually resulted in an economic detriment to ratepayers, rather than the statutorily required benefit necessary to utilize securitization

A proper economic analysis—one accounting for the time value of money, using 12 years as the period of time over which, absent securitization, regulatory assets would be recovered through competition transition charges, and one based on an aggregate evaluation—demonstrates that ratepayers benefit from the securitization of all of the Company's regulatory assets. The Stipulation provides for securitization of regulatory assets of $1,247,413,626, plus qualified costs of $52,586,374, for a total securitization amount of $1,300,000,000, with TXU Electric amortizing the full $1,864,967,000 of retail generation-related regulatory assets over a period of time determined by the Company in consultation with its auditors. Based upon the analysis included in Appendix F, securitization of regulatory assets along with other related qualified costs in a total amount of $1,300,000,000 will provide benefits to ratepayers, at a minimum, in excess of approximately $52 million on a present value basis and will reduce the amount of nominal revenues received by the Company in excess of approximately $95 million over the life of the transition bonds. This analysis demonstrates that all of the standards required by PURA are met if the Company securitizes all of its regulatory assets in the manner as provided in the Stipulation and this Financing Order.

The Company's initial application in Docket No. 21527 requested authority to securitize $1.650 billion, in the aggregate, of regulatory assets and other qualified costs. On remand, and as part of the Stipulation, the Company and other Joint Applicants have requested the Commission approve securitization of $1,300,000,000 of regulatory assets and other qualified costs. As discussed in this Financing Order, while the Company's initial application failed to demonstrate compliance with all statutory standards, the Company's request on remand, as contained in the Stipulation, complies with all statutory standards. In particular, for the reasons set forth in the testimony of Company witness Marc D. Moseley in support of the Stipulation, the Commission finds the use of a 12-year period as the time period over which, absent securitization, regulatory assets would be recovered through competition transition charges, to be reasonable. The amount approved in this Financing Order is based on the aggregate analysis performed by the Commission's Office of *Regulatory Affairs* in the initial proceeding (found in Appendix F of the Commission's May 1, 2000 Financing Order). The Commission finds that aggregate present value analysis, measuring the aggregate cumulative effects of all transition bonds issued to the date of the series of transition bonds being tested, to be appropriate and in

compliance with the Supreme Court's opinion and mandate in *TXU Electric Co. v. Public Utility Commission of Texas, supra.* While the Stipulation provides for securitization of $17,136,932 more than the amount contained in the analysis in Appendix F, the analysis contained therein shows that there will be significant benefits, on a present value basis, based upon the issuance of $1,300,000,000 of transition bonds. Thus, the regulatory assets listed in Appendix C to this Financing Order should be securitized.

As a result of this Financing Order, all of the generation-related regulatory assets on Applicant's regulatory books will be recovered through the securitization. The assets securitized under this Financing Order will not be included in any annual report calculation or in the calculation of excess cost over market under !URA §§ 39.251-265.

I. DISCUSSION

A. Background

The Legislature amended PURA in 1999 to provide for competition in the provision of retail electric service.[2] To facilitate the transition to a competitive environment, an electric utility is allowed to recover all of its net, verifiable, nonmitigable stranded costs.[3] PURA provides several methods for an electric utility to mitigate or recover stranded costs, including the use of excess eamings,[4] recovery through a competition transition charge,[5] and recovery through securitization financing.[6] The Legislature provided this last option for recovering stranded costs based on the conclusion that securitized financing will result in lower carrying costs for utility assets relative to the costs that would be incurred using conventional utility financing methods—resulting in benefits to ratepayers as a result of the securitization.[7] To

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[2] *See* Act of May 27, 1999, 76'h *Leg.,* R.S., ch. 440, 1999 TEX. GEN. LAWS 1111 (codified primarily at TEX. UTIL. CODE Chapters 39, 40, and 41) (S.B. 7).

[3] *See* PURA § 39.252(a).

[4] *See Id. §§* 39.254-261.

[5] *See Id. §§* 39.201, 251-265

[6] *See Id. §§* 39.201, .301-.303.

[7] *See Id. §* 39.301.

ensure such benefits and as a precondition for the use of securitization, the Legislature required that a utility demonstrate that ratepayers would receive tangible and quantifiable benefits as a result of securitization and that this Commission make a specific finding that such benefits exist before issuing a financing order.[8] Consequently, a basic purpose of securitized financing, the recovery of electric utilities' stranded costs, is conditioned upon the other basic purpose, providing economic benefits to consumers of electricity in this state.

To securitize an electric utility's stranded costs, including regulatory assets, the Commission may authorize the issuance of a new security known as transition bonds. Transition bonds are generally defined as evidences of indebtedness or ownership that are issued under a financing order, are limited to a term of not longer than 15 years, and are secured by or payable from transition property.[9] The net proceeds from the sale of the transition bonds must be used to reduce the amount of a utility's recoverable regulatory assets or stranded costs through the refinancing or retirement of the utility's debt or equity. If transition bonds are approved and issued, retail electric customers must pay the principal, interest, and related charges of the transition bonds through transition charges. Transition charges are nonbypassable charges that will be paid by end-use customers as part of the monthly charge for electric service,[1°] and must be approved by the Commission pursuant to a financing order."

B. Statutory Findings

The Commission may adopt a financing order allowing recovery of an electric utility's regulatory assets and eligible stranded costs only if it finds that the total amount of revenues to be collected under the financing order is less than the revenue requirement that would be recovered over the remaining life of the regulatory assets using conventional financing methods and that the financing order is consistent with the standards in PURA § 39.301.[12] To meet these standards, the Commission must ensure that the net proceeds of transition bonds may be used

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[8] *See Id. §§* 39.301, 303(a).

[9] *See Id. §* 39.302(6).

[1°] *See Id. §* 39.302(7).

[11] *See Id. §* 39.303(b).

[12] *1d.* § 303(a).

only for the purposes of reducing the amount of stranded costs through the refinancing or retirement of utility debt or equity. In addition, the Commission must ensure that (I) securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of the transition bonds, and (2) the structuring and pricing of the transition bonds result in the lowest transition-bond charges consistent with market conditions and the terms of a financing order. Finally, the amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with the regulatory assets sought to be securitized, and the present value calculation must use a discount rate equal to the proposed interest rate on the transition bonds. All of these statutory requirements go to ensure that the use of securitization to recover a utility's stranded costs will provide real benefits to a utility's customers. Absent this showing of benefits, a utility must use another mechanism provided by statute to recover its stranded costs.

1. Economic Benefits

The essential finding by the Commission that is needed to issue a financing order is that ratepayers will receive tangible and quantifiable benefits as a result of securitization. This finding can only be made upon a showing of economic benefits to ratepayers through an economic analysis. An economic analysis is one that recognizes the time value of money and is necessary in evaluating whether and the extent to which benefits accrue from securitization. Moreover, an economic analysis recognizes the concept that the timing of a payment can be as important as the magnitude of a payment in determining the value of the payment. Thus, an analysis showing an economic benefit is necessary to quantify a tangible benefit to ratepayers.

Economic benefits also depend upon a favorable financial market—one in which transition bonds may be sold at an interest rate lower than the carrying costs of the assets being securitized. The precise interest rate at which transition bonds can be sold in a future market, however, is not known today. Nevertheless, benefits can be calculated based upon certain known facts (the amount of assets to be securitized) and assumptions—the interest rate of the transition bonds, the term of the transition bonds, and the cost of the alternative to securitization. By analyzing the proposed securitization based upon those facts and assumptions, a determination can be made as to whether tangible and quantifiable benefits result and, if so, the

amount of those benefits. To ensure that the calculated benefits are realized, the securitization transaction must be structured in a manner to conform to the assumptions and facts used in the economic analysis.

The Company's initial application did not contain a present value economic analysis to demonstrate that its proposed securitization would provide tangible and quantifiable benefits to ratepayers. The Company claimed that, because the total amount of revenues, on a nominal basis, it would collect under the proposed securitization would be less than it would otherwise collect, ratepayers would realize a benefit. The Commission rejected the Company's argument that a present value economic analysis is not required to demonstrate that securitization results in tangible and quantifiable benefits. The Company's initial analysis failed to recognize the time value of money and, when the time value of money is considered, its proposal resulted in an economic detriment—not an economic benefit—to ratepayers. The Commission's position that such a present value analysis was within the discretion of the Commission to apply under PURA §39.301 was upheld on appeal by the Texas Supreme Court.

In determining if the amount proposed in the Stipulation to be securitized provides an economic benefit to customers using a present value analysis, it is appropriate to use the aggregate present value analysis performed by the Commission's Office of Regulatory Affairs (ORA) in the initial portion of this proceeding, which analysis was included as Appendix F to the May 1, 2000 Financing Order adopted in Docket No. 21527, and which is also included as Appendix F to this Financing Order. This aggregate, present value financial analysis, based *upon* a 12-year recovery period and an interest rate ceiling of 8.75%, shows an economic benefit to ratepayers of at least $52 million on a present value basis as a result of securitizing all of the Company's generation-related regulatory assets in an amount of $1,247,413,626, plus other qualified costs of $52,586,374. This $52 million economic benefit figure is reached by taking the $69,194,894 in benefit found on Appendix F, based upon securitization of regulatory assets and other qualified costs of $1,282,863,068, and reducing that benefit figure by $17,136,932, to reflect the amount to be securitized that is excess of the $1,282,863,068 amount *upon* which the analysis in Appendix F is based. This economic benefit will result if the bond market is unfavorable and transition bonds have to be issued at the maximum interest rate allowed by this

Order. If a more favorable market allows the transition bonds to be issued at a lower interest rate, then the economic benefit to ratepayers could increase substantially; under the assumed interest rate of 7.33% found in Appendix F, the economic benefit would be nearly $120 million.

2. Total Revenues

To issue a financing order, PURA also requires that the Commission find that the total amount of revenues collected under the financing order will be less than would otherwise have been collected under conventional financing methods. Using ORA's methodology and using worst case market conditions, the analysis of the requested securitization of $1,300,000,000 contained in the Stipulation demonstrate# that revenues will be reduced in excess of approximately $95 million on a nominal basis under this Financing Order compared to the amount that would be recovered under conventional financing methods. If transition bonds are issued in a more favorable market, this reduction in revenues would increase.

3. Lowest Transition-Bond Charges

To issue a financing order, the Commission must also ensure that that the structuring and pricing of the transition bonds result in the lowest transition-bond charges consistent with market conditions and the terms of the financing order. Because the actual structure and pricing of the transition bonds cannot be known at this time, the Company has provided a general description of the proposed *structure* and pricing. This description does not contain every relevant detail and, in certain places, uses only approximations of certain costs and requirements. The final structure and pricing will depend, in part, upon the requirements of the nationally recognized credit rating agencies which will rate the transition bonds, and in part, upon the market conditions that exist at the time the transition bonds are taken to the market. Due to this uncertainty today of future requirements and conditions, the Company has asked for flexibility in designing the structure and pricing of the transition bonds.

While the Commission recognizes the need for some degree of flexibility with regard to the final details of the securitization transactions approved in this Financing Order, its primary focus is upon the statutory requirements—not the least of which is to ensure that securitization

results in tangible and quantifiable benefits to ratepayers—that must be met to issue a financing order. Furthermore, in issuing such an order, the Commission must be mindful of its responsibility to shepherd the restructuring of the electric industry in Texas in a manner that ensures that a competitive retail electric market develops in this state.

In view of these obligations, the Commission has established certain criteria in this Financing Order that must be met in order for the approvals and authorizations granted in this Financing Order to become effective. This Financing Order grants authority to issue transition bonds and to impose and collect transition charges only if the final structure of the securitization transactions complies in all material respects with these criteria. In addition, as discussed elsewhere in this Financing Order, the Commission will participate in the actual design of the' structure and pricing of the transition bonds. The combination of these limiting criteria and the Commission's participation will ensure that the structure and pricing of the transition bonds will result in the lowest transition-bond charges considering the market conditions and the terms of this Financing Order.

C. SFAS 109

[Deleted]

D. Financial Advisor

To obtain the most favorable issuance of transition bonds—and the greatest benefits to ratepayers—the Commission, acting through its financial advisor, will participate in the pricing, marketing, and structuring of the bonds. This participation will provide assurances that the minimum cost of securitization and the maximum benefits for customers are obtained.

In addition, before the transition bonds may be issued, the Company must submit to the Commission an issuance advice letter in which it demonstrates, based upon the actual market conditions at the time of pricing, that the proposed structure and pricing of the transition bonds will provide real economic benefits to customers and comply with this Financing Order. As part of this submission, the Company must also certify to the Commission that the structure and pricing of the transition bonds results in the lowest transition-bond charges consistent with market conditions at the time of pricing and the general parameters set out in this Financing

Order. The Commission, by order, may stop the issuance of transition bonds if the Company fails to make this demonstration or certification.

In addition, the Commission, acting through its designated representative or financial advisor, will participate in the pricing and structure of the transition bonds, and will make the decision, in conjunction with the Company, as to whether to issue the bonds. Finally, the authority and approval granted in this Financing Order is effective only upon the Company filing with the Commission an issuance advice letter demonstrating compliance with the provisions of this Financing Order unless the Commission issues an order that the proposed issuance does not comply with this Financing Order.

E. Transition Charges

PURA requires that transition charges be collected from retail electric customers to pay the transition-bond charges—in this case the principal and interest on the bonds and the associated costs to issue and service those bonds.[13] Transition charges can be recovered over a period that does not exceed 15 years.[14] The Commission concludes that this prevents the collection of transition charges from retail customers in the normal course of business after the 15-year period. However, because of the protections afforded in PURA § 39.305, the Commission also concludes that the 15-year limitation does not apply to the recovery of amounts still owed after the end of the 15-year period through the use of judicial process.

Transition charges will be collected by an electric utility, its successors, an assignee, or other collection agents as provided for in the financing order.[15] The right to impose, collect, and receive transition charges (including all other rights of an electric utility under the financing order) are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of transition bonds. Upon the transfer or pledge of those rights,

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[13] *See Id. §* 39.302(7)

[14] *Id. §* 39.303(b).

[15] *Id.*

they become transition property and, as such, are afforded certain statutory protections to ensure that the charges are available for bond retirement.[16]

F. Statutory Enhancements

This Financing Order contains terms, as it must, ensuring that the imposition and collection of transition charges authorized in the order shall be nonbypassable.[17] It also includes a mechanism requiring that transition charges be reviewed and adjusted at least annually, within 45 days of the anniversary date of the issuance of the transition bonds, to correct any overcollections or undercollections during the preceding 12 months and to ensure the expected recovery of amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the transition bonds.[18] In addition to the required annual reviews, more frequent reviews are allowed to ensure that the amount of the transition charges matches the funding requirements approved in this Order. These provisions will help to ensure that the amount of transition charges paid by retail customers does not exceed the amounts necessary to cover the costs of this securitization, and will also help to foster the development of a robust and competitive retail electric market in Texas.

To encourage utilities to undertake securitization financing, other benefits and assurances are provided. The State of Texas has pledged, for the benefit and protection of financing parties and electric utilities, that it will not take or permit any action that would impair the value of transition property, or, except for the true-up expressly allowed by law, reduce, alter, or impair the transition charges to be imposed, collected and remitted to financing parties, until the principal, interest and premium, and any other charges incurred and contracts to be performed in connection with the related transition bonds have been paid and performed in full.[19]

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[16] *Id §* 39.304(b).

[17] *See Id. §* 39.306.

[18] *Id §* 39.307.

[19] *Id. §* 39.310.

G. Transition Property

Transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property and the property will continue to exist for as long as the pledge of the state just recited.[20] In addition, the interest of an assignee or pledgee in transition property (as well as the revenues and collections arising from the property) are not subject to setoff, counterclaim, surcharge, or defense by the electric utility or any other person or in connection with the bankruptcy of the electric utility or any other entity.[21] Further, transactions involving the transfer and ownership of transition property and the receipt of transition charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.[22] The creation, granting, perfection, and enforcement of liens and security interests in transition property are governed,/by **PURA §** 39.309 and not by the Texas Business and Commerce Code.[23]

H. Refinancing

The Commission may adopt a financing order providing for the retiring and *refunding* of transition bonds only upon making a finding that the future transition charges required to service the new transition bonds, including transaction costs, will be less than the future transition charges required to service the bonds being retired or refunded.[24] This Financing Order does not grant any authority to refinance transition bonds authorized by this Order.

To facilitate compliance and consistency with applicable statutory provisions, this Financing Order adopts the definitions in PURA § 39.302.

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[20] *Id. §* 39.304(b).

[21] *Id. §* 39.305.

[22] *Id. §* 39.311.

[23] *Id. §* 39.309(a).

[24] *Id. §* 39.303(g).

II. DESCRIPTION OF PROPOSED TRANSACTION

A full description of the transactions proposed by the Company is contained in its initial application, exhibits, and testimony filed in Docket No. 21527, and the exhibits and testimony filed in this docket. A brief summary of the proposed transactions is provided in this section; a more detailed description is included in Section III.C, *Structure of the Proposed Securitization.* To facilitate the proposed securitization, the Company proposed that a special purpose entity (SPE) be created to which will be transferred the rights to impose, collect and receive transition charges along with the other rights arising pursuant to this Financing Order. Upon transfer, these rights will become transition property as provided by PURA § 39.304. The SPE will issue transition bonds and will transfer the net proceeds from the sale of the transition bonds to the Company or its successor wires company in consideration for the transfer of the transition property. The SPE will be organized and managed in a manner to ensure the SPE will be bankruptcy remote from and will not be affected by a bankruptcy of the Company or any of its successors. In addition, the SPE will have at least one independent manager, trustee, or director whose approval will be required for certain major actions or organizational changes by the SPE.

The transition bonds will be issued pursuant to an indenture and administered by an indenture trustee. The transition bonds will be secured by and payable solely out of the transition property created pursuant to this Financing Order and other collateral described in the Company's application. That collateral will be pledged to the indenture trustee for the benefit of the holders of the transition bonds.

The servicer of the transition bonds will collect the transition charges and remit those amounts to the indenture trustee on behalf of the SPE. The servicer will be responsible for making any required or allowed true-ups of the transition charges. If the servicer defaults on its obligations under the servicing agreement, the indenture trustee may appoint a successor servicer. The Company or its successor wires company will act as the initial servicer for the transition bonds.

After the beginning of customer choice (January 1, 2002, or June 1, 2001, for customer choice pilot projects under PURA § 39.104), retail electric providers (REPs) will be required to

meet certain financial standards to collect transition charges under this Financing Order. If any REP fails to qualify to collect transition charges or defaults in the remittance of those charges to the servicer of the transition bonds, another entity can assume responsibility for collection of the transition charges from the REP's retail electric customers. If the REP qualifies to collect transition charges, the servicer will bill to and collect from the REP the transition charges attributable to the 'REP's customers. The REP in turn will bill to and collect from its retail customers the transition charges attributable to them.

Transition charges will be calculated to ensure the collection of an amount sufficient to service the principal, interest, and related charges for the transition bonds. Transition charges will also be calculated so that this amount allocated to the various classes of retail customers as provided by PURA. In addition to the annual true-up required by PURA § 39.307, periodic true-ups may be performed as necessary to ensure that the amount collected from transition charges is sufficient to service the transition bonds. A non-standard true-up will be allowed for other circumstances as provided by this Financing Order.

III. FINDINGS OF FACT

A. Identification and Procedure.

Identification of Applicant and Application

1. TXU Electric Company (TXU or the Company) owns and operates for compensation in this state generation facilities and an extensive transmission and distribution network to provide electric service in Texas. The Company is a wholly owned subsidiary of Texas Utilities Company and is an electric utility providing retail and wholesale electric service in Texas.

2. The Company's initial application was filed on October 18, 1999 and includes the exhibits, schedules, attachments, and testimony filed by or for the Company in Docket No. 21527.

3. In its application, the Company used the term Applicant to refer to TXU Electric Company and its successors and assigns that provide transmission or distribution service, or both, directly to retail customers in TXU's existing service area, but not to any successor or

assign that provides competitive services after the advent of customer choice under PURA § 39.051. As used in this Financing Order, the term Applicant has the meaning ascribed to it by the Company in its application.

Procedural History

4. On October 18, 1999, the Company initially filed its application for a financing order under Subchapter G of Chapter 39 of the Public Utility Regulatory Act[25] to permit securitization of some of its regulatory assets and other qualified costs as described in its application, which application was assigned Docket No. 21527.

5. The following persons moved to intervene and were granted party status in Docket No. 21527: Office of Public Utility Counsel (OPC), Steering Committee of Cities served by TXU Electric, NewEnergy Texas, L.L.C. (NewEnergy), Nucor Steel, Texas Industries, Texas Industrial Energy Consumers (TIEC), State of Texas, the City of Garland, Texas Retailers Association (TRA), Enron Energy Services, Inc. (Enron), Competitive Power Advocates, Entergy Gulf States, Inc. (Entergy), Brazos Electric Power Cooperative, Inc., Dallas Fort-Worth Hospital Council (Hospital Council), Alcoa, the Coalition of Independent Colleges and Universities (Coalition of Colleges), and the Cities of Addison, Arlington, Belton, Brownwood, Burleson, Carrollton, Cleburne, Copperas Cove, Dallas, Denison, Flower Mound, Fort Worth, Grand Prairie, Harker Heights, Highland Park, Howe, Irving, Mesquite, North Plano, Pantego, Richardson, Richland Hills, Rockwall Snyder, Sulphur Springs, University Park, Watauga, Waco, and Wichita Falls (Cities). The Commission's Office of Regulatory Affairs (ORA) also participated as a party.

6. On December 3, 1999, Enron filed a motion to limit the scope of the hearing in Docket No. 21527. Specifically, Enron requested that the Commission not address the issue of retail electric provider (REP) qualifications in that docket, but reserve that issue for consideration in Project No. 21082, *Certification of Retail Electric Providers and Registration of Power Generation Companies and Aggregators.* The administrative law judge (AU) denied the motion

[25] TEX. UTIL. CODE §§ 11.001-64.158 (Vernon 1998 & Supp. 2000) (PURA).

but noted that REP qualification issues would be addressed, if at all, only to the extent necessary for a Commission financing order.

7. On December 6 and 7, 1999, the Commission held a hearing on the merits in Docket No. 21527.

8. On December 6, 1999, the Steering Committee of Cities served by TXU Electric, OPC, T1EC, Alcoa, Enron, TRA, Texas Industries, NewEnergy, the City of Mesquite, the State of Texas, the Hospital Council, and the Coalition of Colleges filed a joint motion to dismiss TXU Electric's application and for summary judgment. In support of their motion, the movants asserted that TXU had failed to meet its burden to prove that the proposed securitization provides tangible and quantifiable benefits to customers by failing to include a present value analysis in its direct case. The Commission did not address the joint motion prior to the close of the hearing.

9. On December 23, 1999, the ALI granted Shell Energy Services Company, L.L.C. (Shell Energy); Fowler Energy, Inc.; Greenmountain.com Company; and DTE Energy leave to file *amicus curiae* briefs on the issues raised in Docket No. 21527.

10. On January 10, 2000, the Company filed a motion to extend the time for the Commission to issue a financing order to February 1, 2000. The Company orally modified its motion during the open meeting on January 10, 2000 to extend the deadline until March 13, 2000. The Commission approved this extension during the open meeting.

11. On March 1, 2000, in open meeting, the Commission deliberated on the merits of the Company's application and heard additional argument. During this open meeting, the Company moved to extend the deadline to issue a financing order to April 14, 2000. The Commission approved the Company's proposed extension to issue a draft financing order.

12. On March 21, 2000, the Company filed a proposed schedule to issue and review a draft financing order and a request to extend the deadline to issue a financing order; and TIEC, the

Hospital Council and Coalition of Colleges, and TRA filed a request related to the manner of billing transition charges for demand customers.

13. On March 23, 2000, in open meeting, the Commission further deliberated on the merits of the Company's application and heard additional argument. The Commission approved the Company's schedule to issue and review a draft financing order and extension of the deadline to issue a financing order to May 1, 2000.

14. On March 30, 2000, the Commission's Office of Policy Development filed a draft financing order in Docket No. 21527. On April 6, 2000, the parties filed comments to this draft financing order. On April 13, 2000, the parties met with the Office of Policy Development to provide further comments to the draft financing order.

15. On April 27, 2000, the Commission considered the draft financing order and parties' comments to the draft financing order, and rendered its final decision in Docket No. 21527, and entered its Financing Order on May 1, 2000.

15A. The following parties filed appeals of the May 1, 2000 Financing Order to Travis County District Court: TXU Electric, Office of Public Utility Counsel, Texas Industrial Energy Consumers, Nucor Steel, and Texas Industries, Inc. Numerous parties then filed appeals of the District Court's Judgment directly to the Texas Supreme Court. Ultimately, in *TXU Electric Co. v. Public Utility Commission of Texas, supra*, the Supreme Court denied all points of error except for three points brought by the Company, holding that: (a) that in conducting an additional present value test, the Commission must assume that absent securitization, regulatory assets would be recovered through competition transition charges in considerably less than 40 years; (b) in determining the amount to be securitized, the Commission must consider regulatory assets in the aggregate; and (c) Finding of Fact No. 113 and related findings and conclusions of law were premature and advisory. The Supreme Court then remanded the proceeding to the Commission for proceedings consistent with the Court's opinion. That remand proceeding was assigned Docket No. 24892, *Remand of Docket No. 21527(Application of TXU Electric Company for Financing Order to Securitize Regulatory Assets and Other Qualified Costs).*

15B. On December 31, 2001, the Stipulation was filed by Joint Applicants. The Stipulation resolves all issues related to TXU Electric's stranded cost recovery, securitization of regulatory assets, excess mitigation, unrecovered fuel balance, fuel reconciliation, wholesale "clawback," retail "clawback," regulatory asset review, and appeals of the Commission's orders in TXU Electric's Unbundled Cost of Service ("UCOS") case (PUC Docket No. 22350), as well as resolving certain judicial proceedings related to Commission orders affecting rates and the transition to retail competition. One of the terms of the Stipulation provides for the issuance of $1,300,000,000 in transition bonds. On January 2, 2002, in Order No. 1, Docket No. 24892 was consolidated into Docket No. 25230, closed as a separate proceeding, and the records of Docket Nos. 21527 and 24892 were incorporated into Docket No. 25230.

15C. TXU Electric filed direct testimony in support of the Joint Applicants' Stipulation on January 17, 2002. Dallas-Fort Worth Hospital Council ("DHC"), Coalition of Independent Colleges and Universities ("HCU"), and Texas Independent Energy Company, L.P. ("TIE") filed direct testimony in opposition to the Stipulation on February 21, 2002. TXU Electric filed rebuttal testimony on February 28, 2002. The Commission conducted an *en bane* hearing on the merits to consider the Stipulation on March 12, 2002. Post-hearing briefs were filed on March 25, 2002, and reply briefs *were* filed on April 5, 2002. The Commission considered the Stipulation during the regularly scheduled Open Meeting of the Commission on April 18, 2002. As part of its deliberations, the Commission requested additional evidence or briefing on five issues. On April 30, 2002, TXU Electric, Cities, and OPC filed testimony concerning those five issues, and TXU Electric filed a brief concerning one issue. No party filed testimony in opposition to that April 30 testimony. DHC, CICU, TIE, the State of Texas, and Nucor Steel-Texas filed Statements of Position and Briefs concerning those five issues on May 9, 2002. On May 16, 2002, TXU Electric filed a brief in reply to the briefs filed by those parties. On May 30, 2002, the Commission conducted an *en banc* hearing on the merits to consider the additional evidence concerning the five issues designated by the Commission.

Notice of Application

16. Notice of the Company's initial filing was provided through publication once a week for two consecutive weeks in newspapers having general circulation in the Company's Texas service area, beginning shortly after the filing of its application. In addition, the Company provided individual notice to the governing bodies of all Texas incorporated municipalities served by the Company that have retained original jurisdiction over the Company. Proof of publication was submitted in the form of publishers' affidavits and verification of the mailing of individual notices and the provision of notice to the municipalities.

16A. TXU Electric provided notice of the Stipulation to all parties in Commission Dockets Nos. 22350, 22344 (the generic UCOS docket), 24892 (the remand from the Texas Supreme Court of TXU Electric's application for a financing order), 22652 (the remand from the Texas Supreme Court related to the Comanche Peak minority owner disallowance), and 23806 (the 2000 Annual Report docket). Additionally, TXU Electric published notice of the Stipulation and this proceeding once each week for four consecutive weeks in newspapers of general circulation in each county in which TXU Electric was certificated to provide electric service as of December 31, 2001. TXU Electric also, on January 4, 2002, filed copies of an Executive Summary of the Stipulation with all municipalities located within TXU Electric's service area.

Evidence of Record

17. The following items were admitted into evidence in Docket No. 21527: (a) TXU Electric Exhibit Nos. 1-22; (b) Cities Exhibit Nos. 1, la, 2, 2a, and 4; (c) Dallas Fort-Worth Hospital Council and Coalition of Independent Colleges and Universities Exhibit Nos. 1-4; (d) NewEnergy Exhibit Nos. 14; (e) Nucor Steel Exhibit Nos. 1-3; OPC Exhibit Nos. 1, la, 2-3, and 3a; (f) State of Texas Exhibit No. 1; (g) TIEC Exhibit Nos. 1, la, 2, 2a, and 3-16; (h) Texas Industries Exhibit Nos. 1-2; (i) TRA Exhibit Nos. 1-2, 2a, 3-14; and (j) ORA Exhibit Nos. la, lb, lc, 2-3, 3a, 4, 4a, 5a, 5b, 6a, 6b, and 7-11.

17A. The following items were admitted into evidence in this proceeding: (a) TXU Electric Exhibit Nos. 1-7, 7A, 8, 8A, 9-11, 16-26; (b) Cities Exhibit No. 1; (c) OPC Exhibit No. 1; (d) Dallas Fort-Worth Hospital Council and Coalition of Independent Colleges and Universities

Exhibit Nos. 1-18; (e) Nucor Steel Exhibit No. 1; (f) State of Texas Exhibit Nos. 1-3; and (g) TIE Exhibit Nos. 1, and 5-23.

B. Qualified Costs and Amount to be Securitized.

18. Qualified costs are defined to include 100% of an electric utility's regulatory assets and 75% of its recoverable costs determined by the Commission under PURA § 39.201 and any remaining stranded costs determined under PURA § 39.262, together with the costs of issuing, supporting, and servicing transition bonds and any costs of retiring and refunding the electric utility's existing debt and equity securities in connection with the issuance of transition bonds. Qualified costs also include the costs to the Commission of acquiring professional services for the purpose of evaluating proposed securitization transactions.[26]

19. The Company proposed to recover qualified costs consisting of regulatory assets, the costs of issuing, supporting and servicing the transition bonds, the costs of retiring and refunding the Company's existing debt and equity securities in connection with the issuance of the transition bonds, and the costs to the Commission of acquiring professional services for the purpose of evaluating the Company's proposed securitization transactions. The Company also proposed to include the costs of credit enhancements and enhancement costs relating to the marketability of the transition bonds described in the Company's testimony as qualified costs.

Regulatory Assets

20. Regulatory assets are defined to include only the generation-related portion of the Texas jurisdictional portion of the amount reported by an electric utility in its 1998 annual report on Securities and Exchange Commission (SEC) Form 10-K as regulatory assets and liabilities, offset by the applicable portion of generation-related investment tax credits permitted under the Internal Revenue Code of 1986.[27] The Company identified the amount of the generation-related portion regulatory assets as shown in Appendix A to this Financing Order. ORA made adjustments to the amounts proposed by the Company by reversing adjustments made by the

[26] *See* PURA § 39.302(4).

[27] *Id. §* 39.302(5).

Company and by applying a retail allocation factor of 99.33% to reflect the amount that retail customers should bear. Because the Commission finds that only the retail portion of regulatory assets may be recovered through a transition charge assessed against retail customers, the Commission finds that the jurisdictional generation demand allocation factor approved in Docket No. 18490[28] (the last Commission final order addressing the Company's rate design) should be used to determine the Texas retail portion of the amount of generation-related regulatory assets in this proceeding. The numeric value of the retail jurisdictional allocation factor approved in Docket No. 18490 is 99.33%. The Commission also finds that the amount of the regulatory assets listed in Appendix A is the eligible portion of the generation-related portion of the Texas retail jurisdictional portion of the amount listed on the Company's 1998 SEC Form 10-K. Only the amounts that satisfy all statutory requirements, however, can actually be securitized.

21. The Company did not include the amount of investment tax credits and other regulatory liabilities in its application. The Commission finds that the exclusion of these items in this proceeding is appropriate, and they were addressed in a different proceeding.

22. All of the regulatory assets proposed for securitization by the Company represent costs or obligations that have been incurred by the Company

23. The Company initially proposed to securitize regulatory assets in an aggregate amount of $1,579,834,904 and write off assets in the amount of $285,132,096. Under the Company's proposed securitization, $1,864,967,000 of regulatory assets would be removed from the Applicant's regulatory books, including $1,449,761,144 of SFAS-109 assets.

23A. In this proceeding, consistent with the terms of the Stipulation, entry of a financing order that empowers TXU Electric or its successor or assign to issue $1.3 billion of transition bonds to securitize its generation-related regulatory assets as reported by TXU Electric in its 1998 annual report on SEC Form 10-K as regulatory assets and liabilities and other qualified costs is reasonable, as shown in Appendix B. TXU Electric will amortize the full $1,864,967,000 of

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[28] *Joint Application to Reduce Texas Utilities Electric Company Base Rates and Approval of Certain Accounting Procedures*, Docket No. 18490, Order on Rehearing (June 25, 1998) (Docket No. 18490).

retail generation-related regulatory assets over a period of time determined by the Company in consultation with its auditors.

24. In Docket No. 21527 ORA performed calculations, adopted in Appendix F of the May 1, 2000 Order, demonstrating that, on an aggregate basis and conducting the present value analysis over a 12-year period, the Applicant had demonstrated tangible and quantifiable benefits to customers. In this proceeding, the Joint Applicants, based upon this analysis, proposed that the aggregate present value analysis use a 12-year period and that the Commission enter an order approving securitization of $1,300,000,000 in regulatory assets and qualified costs. For the reasons set forth in the testimony of Company witness Moseley in this proceeding, the Commission finds the use of a 12-year period as the time period over which, absent securitization, regulatory assets would be recovered through competition transition charges to be reasonable, and approves the proposed securitization by the Company of $1,300,000,000 in regulatory assets and other qualified costs.

Other Qualified Costs

25. Other qualified costs consist of the costs of issuing, supporting, and servicing transition bonds and any costs of retiring and refunding Applicant's existing debt and equity securities in connection with the issuance of the transition bonds. The actual costs of issuing and supporting the transition bonds will not be known until the transition bonds are issued, and certain ongoing costs relating to the transition bonds may not be known until such costs are incurred. The actual amount of debt and equity securities to be retired and refunded will be affected by market conditions at the time such securities are retired or refunded, and, therefore, the actual cost of retiring and *refunding* debt and equity securities in connection with the issuance of the transition bonds will not be known until such securities are retired and such refunding is complete. The costs of credit enhancement and servicing, including third party fees and expenses, also will not be known until the time the transition bonds are priced. The Company estimated the amount of these costs as shown in Appendix B and proposed to recover these estimated amounts as qualified costs in this Financing Order.

26. In Docket No. 21527 ORA proposed maximum estimated costs based in part on costs incurred in other securitizations and in part due to the difference in the amount originally proposed to be securitized by the Company and ORA. ORA' s proposed maximum estimated costs were adopted by the Commission in its May 1, 2000 Order. In the Stipulation filed in this proceeding, the Company requested that the fixed costs remain unchanged and that the variable costs, which are based upon percentages of the amount securitized, be increased to reflect the increased amount of regulatory assets to be securitized. The Commission finds the requested costs to be reasonable, and approves the aggregate amount of qualified costs on remand found in Appendix B. Because the $500 million in transition bonds that may be issued prior to 2004 is five-thirteenth's of the total $1.3 billion in transition bonds authorized by this Financing ***Order,*** the Commission finds that the aggregate cap on up-front qualified costs financed by transition bonds issued prior to 2004 shall not exceed $20,225,528, which is equal to five-thirteenth's of the total amount cap on up-front qualified costs of $52,586,374.

Amount to be Securitized

27. The Company in this proceeding proposed to include the amount of the regulatory assets, the costs of issuing, supporting and servicing the transition bonds, the costs of retiring and *refunding* debt and equity, and the Commission's cost for acquiring professional services as listed in Appendix B, plus the costs, which are not quantified, of swap and hedge agreements in the principal amount of the transition bonds.

28. The benefits of any proposed securitization are dependent, in part, upon the total amount of qualified costs other than regulatory assets sought to be securitized or directly recovered through transition charges. To satisfy its statutory obligations to ensure quantifiable and tangible benefits to ratepayers, the Commission must limit the maximum amount of qualified costs other than regulatory assets approved in this Financing Order that may be included in the principal amount of the transition bonds so that the sum of the fixed and variable up-front qualified costs plus the costs to reacquire debt and equity does not exceed $52,586,374 as shown in Appendix C. The annual ongoing servicing fees and the annual fixed operating costs must be recovered directly through transition charges and must not be included in the principal amount of the transition bonds. Additional limits must be imposed to ensure that the ongoing servicing fees do

not exceed the maximum amount shown in Appendix C; and the sum of the annual fixed operating costs does not exceed $185,000. To further ensure the benefits promised by this securitization, the excess of any amounts securitized (including associated interest) over the actual amounts incurred by Applicant for up-front costs plus the reacquisition costs must be provided as a credit in Applicant's ECOM proceeding or a future securitization proceeding.

29. As limited by this Financing Order, the recovery of the net amount of regulatory assets and other qualified costs listed in Appendix C should be approved because ratepayers will receive tangible and quantifiable benefits as a result of the securitization, and the amount of the Company's stranded costs will be *reduced, leading* to further benefits for ratepayers. The regulatory liabilities, including investment tax credits, not addressed in this docket were ' addressed in the Applicant's ECOM proceeding.

Issuance Advice Letter

30. Because the actual structure and pricing of the transition bonds and the precise amounts of up-front costs and expenses will not be known at the time that this Financing Order is issued, the Company proposed that, following determination of the final terms of the transition bonds and prior to issuance of the transition bonds, Applicant will file with the Commission for each series of transition bonds issued, and no later than the second business day after the pricing date for that series of transition bonds, an issuance advice letter. The issuance advice letter will be completed to report the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued. All amounts that require computation will be computed using the mathematical formulas contained in the form of the issuance advice letter in Appendix E and the Transition Charge Rate Tariff in Appendix D to this Financing Order. The Company proposed that the Commission's review of the issuance advice letter be limited to the arithmetic accuracy of the calculations and to compliance with the specific requirements that are contained in the issuance advice letter, and that the initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the later of the third business day after submission to the Commission or the date of issuance of the transition bonds unless, prior to such third business clay, the Commission issues an order finding that the proposed issuance does not comply with those *requirements.*

31. The completion and filing of an issuance advice letter in the form of the Issuance Advice Letter attached as Appendix E, including the certification from Applicant as discussed in Finding of Fact No. 107, is necessary to ensure that any securitization actually undertaken by Applicant complies with the terms of this Financing Order.

Tangible and Quantifiable Benefit

32. The statutory requirement in PURA § 39.301 that directs the Commission to ensure that securitization provides tangible and quantifiable benefits to ratepayers greater than would be achieved absent the issuance of transition bonds can only be determined using an economic analysis. An economic analysis is one that accounts for the time value of money. An analysis ' that compares the present value of the traditional revenue requirement associated with an asset (reflective of conventional utility financing) with the present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides an economic benefit to ratepayers. An analysis showing an economic benefit to ratepayers is necessary to show that the benefit is tangible and to quantify the amount of the benefit.

33. Securitization financing for the regulatory assets detailed in Appendix C is expected to *result* in approximately $52 million, at a minimum, of tangible and quantifiable economic benefits to ratepayers on a present-value basis if the transition bonds are issued at the maximum interest rates allowed by this Financing Order. The actual benefit to ratepayers will depend upon market conditions at the time the transition bonds are issued. This quantification is the sum of the economic benefit calculated all regulatory assets using the methodology described in ORA's testimony in Docket No. 21527 using a discount rate of 8.75% and a maximum expected life of 12 years as detailed in Appendix F, offset by the amount of up-front and ongoing costs approved in this Financing Order.

34. The methodology described in ORA's testimony in Docket No. 21527 to calculate the economic benefits to ratepayers as a result of this Financing Order is appropriate and properly calculates the economic benefits to ratepayers resulting from securitization of the qualified costs approved in this Financing Order and detailed in Appendix C.

Present Value Can

35. The amount securitized may not exceed the present value of the revenue requirement over the life of the proposed transition bonds associated with the regulatory assets or stranded costs sought to be securitized where the present value analysis uses a discount rate equal to the proposed interest rate on the transition bonds.[29] The methodology used by ORA to calculate economic benefits also demonstrates that the amount the Company seeks to securitize does not exceed the present value of the revenue requirement over the maximum expected 12-year life of the transition bonds associated with those regulatory assets.

36. The amount of qualified costs to be securitized detailed in Appendix C does not exceed the present value of the revenue requirement over the maximum expected 12-year life of the transition bonds associated with the regulatory assets approved to be securitized in this Financing Order. The present value analysis uses a discount rate equal to the expected weighted average interest rate on the transition bonds on an annual basis.

Total Amount of Revenue to be Recovered

37. The Commission is required to find that the total amount of revenues to be collected under this Financing Order will be less than the revenue requirement that would be recovered over the remaining life of the regulatory assets that are securitized under this Financing Order, using conventional financing methods.[30] The total amount of revenues to be collected under this Financing Order will be in excess of approximately $95 million less than the revenue requirement that would be recovered using conventional utility financing methods over the current remaining life of the securitized regulatory assets. This quantification is the sum of the reduction in the amount of *revenues* resulting from securitization for each regulatory asset that is proposed to be securitized using the methodology contained in ORA's testimony in Docket No. 21527 using a transition-bond interest rate of 8.75% and a maximum expected bond life of 12 years as detailed in Appendix F, less the ongoing costs approved in this Financing Order.

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[29] *See* PURA § 39.301.

[30] *See Id. §* 39.303(a).

38. Based upon ORA's methodology in Docket No. 21527, Joint Applicants calculated the differential between the total amount of revenues to be collected under this Financing Order and the revenue requirement that would be collected over the remaining life of the regulatory assets that are securitized. The Commission finds that this method is appropriate and properly calculates the reduction in total revenues collected from ratepayers resulting from the securitization approved in this Financing Order.

C. Structure of the Proposed Securitization.

The SPE

39. For purposes of this securitization, Applicant will create a special purpose entity (SPE), which will be either a Delaware limited liability company with Applicant as its sole member or a Delaware business trust with Applicant as grantor and owner of all beneficial interests. The SPE will be formed for the limited purpose of acquiring transition property (including any transition property authorized by the Commission in a subsequent financing order), issuing transition bonds (including any transition bonds authorized by the Commission in a subsequent financing order), and performing other activities relating thereto or otherwise authorized by this Financing Order. The SPE will not be permitted to engage in any other activities and will have no assets other than transition property (and any subsequent transition property) and related assets to support its obligations under the transition bonds (and any *subsequent* transition bonds). Obligations relating to the transition bonds (or any subsequent transition bonds) will be the SPE's only significant liabilities. These restrictions on the activities of the SPE and restrictions on the ability of Applicant to take action on the SPE's behalf are imposed to ensure that the SPE will be bankruptcy remote and will not be affected by a bankruptcy of Applicant. The SPE will be managed by a board of managers, trustees or a board of directors with rights similar to those of boards of directors of corporations. As long as the transition bonds remain outstanding, the SPE will have at least one independent manager, trustee or director, ***i.e.,*** with no organizational affiliation with Applicant. The SPE will not be permitted to amend the provisions of the organizational documents that ensure bankruptcy-remoteness of the SPE without the consent of the independent manager, trustee or director. Similarly, the SPE will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency

proceedings against it, or to dissolve, liquidate, consolidate, convert or merge without the consent of the independent manager, trustee or director. Other restrictions to assure bankruptcy-remoteness may also be included in the organizational documents of the SPE as indicated by the rating agencies.

40. The initial capital of the SPE is expected to be not less than 0.5% of the original principal amount of each series of transition bonds issued by the SPE. The initial capitalization of the SPE must be sufficient to allow the SPE to meet any reasonably expected expenses that might arise, including those that are related to the transition charges (including any shortfalls in payment of the transition charges) and the transition bonds. Adequate funding of the SPE is intended to avoid the possibility that Applicant would have to extend funds to the SPE in a manner that could jeopardize the bankruptcy remoteness of the SPE. A sufficient level of capital is necessary to minimize this risk and, therefore, assist in achieving the lowest transition-bond charges possible.

41. The SPE will issue transition bonds in an aggregate amount not to exceed the principal amount approved by this Financing Order and will pledge to the indenture trustee, as collateral for payment of the transition bonds, the transition property, including the SPE' s right to receive the transition charges as and when collected, and certain other collateral described in the Company's application.

42. Concurrently with the issuance of any of the transition bonds, Applicant will transfer to the SPE all of Applicant's rights under this Financing Order, including rights to impose, collect, and receive the transition charges approved in this Financing Order. This transfer will be structured so that it will qualify as a true sale within the meaning of PURA § 39.308. By virtue of the transfer, the SPE will acquire all of the right, title, and interest of Applicant in the transition property arising under this Financing Order.

43. The use and proposed structure of the SPE and the limitations related to its organization and management are necessary to minimize risks related to the proposed securitization

transactions and to minimize the transition-bond charges. Therefore, the use and proposed structure of the SPE, as modified in Findings of Fact Nos. 40 and 68, should be approved.

Other Credit Enhancement

44. The Company proposed that Applicant might provide for various other forms of credit enhancement including letters of credit, reserve accounts, surety bonds, swap arrangements, hedging arrangements and other mechanisms designed to promote the credit quality and marketability of the transition bonds and that the costs of any credit enhancements be included in the amount of qualified costs to be securitized.

45. The Company failed to quantify the hosts or any benefits related to any of the proposed methods of credit enhancement identified in Finding of Fact No. 44. Accordingly, costs related to any of the proposed methods of credit enhancement cannot cause the aggregate amount of the up-front costs that are securitized to exceed the amount of the cap on the aggregate amount for those costs specified in Appendix C. This finding does not apply to the use of a collection account or its subaccounts addressed in Findings of Fact Nos. 62 through 68 in this Financing Order.

Transition Property

46. Under PURA § 39.304, the rights and interest of an electric utility or successor under a financing order, including the right to impose, collect and receive the transition charges authorized in the order, are only contract rights until they are first transferred to an assignee or pledged in connection with the issuance of transition bonds, at which time they will become transition property.[31]

47. The proposed transfer by Applicant to the SPE of the rights to impose, collect and receive the transition charges approved in this Financing Order along with the other rights arising pursuant to this Financing Order will become transition property upon the transfer pursuant to PURA § 39.304.

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[31] *See Id. §* 39.304(a).

48. Transition property and all other collateral will be held and administered by the indenture trustee pursuant to the indenture, as described in the Company's application. This proposal will help ensure the lowest transition-bond charges and should be approved.

49. Under PURA § 39.304(b), transition property constitutes a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of transition charges depends on further acts of the utility or others that have not yet occurred.

Servicer and the Servicing Agreement.

50. To the extent that any interest in the transition property created by this Financing Order is assigned, sold or transferred to an assignee,[32] Applicant will enter into a contract with that assignee that will require Applicant to continue to operate its transmission and distribution system or its distribution system in order to provide electric services to Applicant's customers.

51. Applicant will execute a servicing agreement with the SPE; this agreement may be amended, renewed or replaced by another servicing agreement. The entity responsible for carrying out the servicing obligations under any servicing agreement is the servicer. The Applicant will be the initial servicer but may be succeeded as servicer by another entity under certain circumstances detailed in the servicing agreement. Pursuant to the servicing agreement, the servicer is required, among other things, to impose and collect the applicable transition charges for the benefit and account of the SPE, to make the periodic true-up adjustments of transition charges required or allowed by this Financing Order, and to account for and remit the applicable transition charges to or for the account of the SPE in accordance with the remittance procedures contained in the servicing agreement without any charge, deduction or surcharge of any kind (other than the servicing fee specified in the servicing agreement). Under the terms of the servicing agreement, if any servicer fails to fully perform its servicing obligations, the indenture trustee acting under the indenture to be entered into in connection with the issuance of

[32] PURA § 39.302(1) defines an assignee as any individual, corporation, or other legally recognized entity to which an interest in transition property is transferred, other than as security, including any assignee of that party.

the transition bonds, or the indenture trustee's designee, may, or, upon the instruction of the requisite percentage of holders of the outstanding amount of transition bonds, shall appoint an alternate party to replace the defaulting servicer, in which case the replacement servicer will perform the obligations of the servicer under the servicing agreement. The obligations of the servicer under the servicing agreement and the circumstances under which an alternate servicer may be appointed will be more fully described in the servicing agreement. The rights of the SPE under the servicing agreement will be included in the collateral pledged to the indenture trustee under the indenture for the benefit of holders of the transition bonds.

52. The obligations to continue to provide service and to collect and account for transition charges will be binding upon Applicant and any other entity that provides transmission and distribution services or direct wire services to a person that was a retail customer of Applicant located within Applicant's certificated service area on May 1, 1999, or that became a retail customer for electric services within such area after May 1, 1999 and is still located within such area. Further, and to the extent REPs are responsible for imposing and billing transition charges on behalf of the SPE, billing and credit standards approved in this Financing Order will be binding on all REPs that bill and collect transition charges from such retail customers, together with their successors and assigns. The Commission will enforce the obligations imposed by this Financing Order, its applicable substantive rules and statutory provisions.

53. The proposals described in Findings of Fact Nos. 50 through 52 are reasonable, will reduce risk associated with the proposed securitization and will, therefore, facilitate the obtainment of the lowest transition-bond charges and the greatest benefit to ratepayers and should be approved.

Retail Electric Providers

54. Beginning on the date of customer choice for any retail customers, the servicer will bill the transition charges for those customers to each retail customer's REP and the REP will collect the transition charges from its retail customers.

55. In many of the jurisdictions that have approved the issuance of transition bonds, the financing orders have provided that the entities that collect transition charges must remit the amounts collected to the servicing entity within a specified number of days and that the servicing entity would be allowed to assume the billing and collection of transition charges in the event of default by the collecting *entity. Financing orders in* other *jurisdictions* have typically also established credit qualifications or deposit requirements, or both, for the entities that intend to bill, collect, and remit transition charges.

56. The billing and collection standards adopted by the Commission in Docket No. 2l528[33] should be adopted in this docket to provide, to the greatest extent possible, uniformity for these standards in Texas. Uniformity of standards will facilitate the competitiveness of the retail electric market in this state.

57. The billing and collection standards are the most stringent that can be imposed on REPs by the servicer under this Financing Order. The standards relate only to the billing and collection of transition charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with the transmission and distribution company to bill and collect transition charges from retail customers. REPs may contract with parties other than the transmission and distribution company to bill and collect transition charges from retail customers, but such REPs shall remain subject to these standards. Upon adoption of any amendment to the current rule addressing any of the standards, Staff will open a proceeding to investigate the need to modify the standards to conform to that rule, with the understanding that such modifications may not be implemented absent prior written confirmation from each of the rating agencies that have rated the transition bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds.

58. The proposed REP standards are as follows:

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[33] *Application of Central Power and Light Company for Financing Order to Securitize Regulatory Assets and Other Qualified Costs,* Docket No. 21528 (March 27, 2000) (Docket No. 21528).

(a) Rating, Deposit. and Related Requirements. Each REP must (1) have a long-term, *unsecured* credit rating of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively, or (2) provide (A) a deposit of two months' maximum expected transition charge collections in the form of cash, (B) an affiliate guarantee, surety bond, or letter of credit providing for payment of such amount of transition-charge collections in the event that the REP defaults in its payment obligations, or (C) a combination of any of the foregoing. A REP that does not have or maintain the requisite long-term, unsecured credit rating may select which alternate form of deposit, credit support, or combination thereof it will utilize, in its sole discretion. The indenture trustee shall be the beneficiary of any affiliate guarantee, surety bond or letter of credit. The provider of any affiliate guarantee, surety bond, or letter of credit must have and maintain a long-term, unsecured credit ratings of not less than "BBB-" and "Baa3" (or the equivalent) from Standard & Poor's and Moody's Investors Service, respectively.

(b) Loss of Rating. If the long-term, *unsecured* credit rating from either Standard & Poor's or Moody's Investors Service of a REP that did not previously provide the alternate form of deposit, credit support, or combination thereof or of any provider of an affiliate guarantee, surety bond, or letter of credit is suspended, withdrawn, or downgraded below "BBB-" or "Baa3" (or the equivalent), the REP must provide the alternate form of deposit, credit support, or combination thereof, or new forms thereof, in each case from providers with the requisite ratings, within 10 business days following such suspension, withdrawal, or downgrade. A REP failing to make such provision must comply with the provisions set forth in Paragraph (e).

(c) Computation of Deposit. etc. The computation of the size of a required deposit shall be agreed upon by the servicer and the REP, and reviewed no more frequently than quarterly to ensure that the deposit accurately reflects two months' maximum collections. Within 10 business days following such review, (1) the REP shall remit to the indenture trustee the amount of any shortfall in such required deposit or (2) the servicer shall instruct the indenture trustee to remit to the REP any amount in excess of such required deposit, A REP failing to so remit any such shortfall must comply with the provisions set forth in Paragraph (e). REP cash deposits shall be held by the indenture trustee, maintained in a segregated account, and invested in short-term high quality investments, as permitted by the rating agencies rating the transition bonds. Investment earnings on REP cash deposits shall be considered part of such cash deposits

so long as they remain on deposit with the indenture trustee. At the instruction of the servicer, cash deposits will be remitted with investment earnings to the REP at the end of the term of the transition bonds unless otherwise utilized for the payment of the REP's obligations for transition bond payments. Once the deposit is no longer required, the servicer shall promptly (but not later than 30 calendar days) instruct the indenture trustee to remit the amounts in the segregated accounts to the REP.

(d) Payment of transition charges. Payments of transition charges are due 35 calendar days following each billing by the servicer to the REP, without regard to whether or when the REP receives payment from its retail customers. The servicer shall accept payment by electronic funds transfer, wire transfer, and/or check. Payment will be considered received the date the electronic funds transfer or wire transfer is received by the servicer, or the date the check clears. A 5% penalty is to be charged on amounts received after 35 calendar days; however, a 10 calendar-day grace period will be allowed before the REP is considered to be in default. A REP in default must comply with the provisions set forth in Paragraph (e). The 5% penalty will be a one-time assessment measured against the current amount overdue from the REP to the servicer. The "current amount" consists of the total unpaid transition charges existing on the 36th calendar day after billing by the servicer. Any and all such penalty payments will be made to the indenture trustee to be applied against transition charge obligations. A REP shall not be obligated to pay the overdue transition charges of another REP. If a REP agrees to assume the responsibility for the payment of overdue transition charges as a condition of receiving the customers of another REP that has decided to terminate service to those customers for any reason, the new REP shall not be assessed the 5% penalty upon such transition charges; however, the prior REP shall not be relieved of the previously-assessed penalties.

(e) Remedies Upon Default. After the 10 calendar-day grace period (the 45th calendar day after the billing date) referred to in Paragraph (d), the servicer shall have the option to seek recourse against any cash deposit, affiliate guarantee, surety bond, letter of credit, or combination thereof provided by the REP, and avail itself of such legal remedies as may be appropriate to collect any remaining unpaid transition charges and associated penalties due the servicer after the application of the REP's deposit or alternate form of credit support. In addition, a REP that is in default with respect to the requirements set forth in Paragraph (b), (c), or (d) shall select and implement one of the following options:

(1) Allow the Provider of Last Resort ("POLR") or a qualified REP of the customer's choosing to immediately assume the responsibility for the billing and collection of transition charges.

(2) Immediately implement other mutually suitable and agreeable arrangements with the servicer. It is expressly understood that the servicer's ability to agree to any other arrangements will be limited by the terms of the Servicing Agreement and requirements of each of the rating agencies that have rated the transition bonds necessary to avoid a suspension, withdrawal, or downgrade of the ratings on the transition bonds.

(3) Arrange that all amounts owed by retail customers for services rendered be timely billed and immediately paid directly into a lock-box controlled by the servicer with such amounts to be applied first to pay transition charges before the remaining amounts are released to the REP. All costs associated with this mechanism will *be* borne solely by the REP.

If a REP that is in default fails to immediately select and implement one of the foregoing options or, after so selecting one of the foregoing options, fails to adequately meet its responsibilities thereunder, then the servicer shall immediately implement option (1). Upon re-establishment of compliance with the requirements set forth in Paragraphs (b), (c), and (d) and the payment of all past-due amounts and associated penalties, the REP will no longer be required to comply with this Paragraph.

(f) Billing by Providers of Last Resort. etc. The initial POLR appointed by the Commission, or any Commission-appointed successor to the POLR, must meet the minimum credit rating or deposit/credit support requirements described in Paragraph (a) in addition to any other standards that may be adopted by the Commission. If the POLR defaults or is not eligible to provide such services, responsibility for billing and collection of transition charges will immediately be transferred to and assumed by the servicer until a new POLR can be named by the Commission or the customer requests the, services of a certified REP. Retail customers may never be re-billed by the successor REP, the POLR, or the servicer for any amount of transition charges they have paid their REP (although future transition charges shall reflect REP and other system-wide charge-offs). Additionally, if the amount of the penalty detailed in Paragraph (d) is the sole remaining past-due amount after the 45th calendar day, the REP shall not be required to

comply with clauses (1), (2) or (3) of Paragraph (e), unless the penalty is not paid within an additional 30 calendar days.

(g) Disputes. In the event that a REP disputes any amount of billed transition charges, the REP shall pay the disputed amount under protest according to the timelines detailed in Paragraph (d). The REP and servicer shall first attempt to informally resolve the dispute, but if they, fail to do so within 30 calendar days, either party may file a complaint with the Commission. If the REP is successful in the dispute process (informal or formal), the REP shall be entitled to interest on the disputed amount paid to the servicer at the Commission-approved interest rate. Disputes about the date of receipt of transition charge payments (and penalties arising thereof) or the size of a required REP deposit will be handled in a like manner. It is expressly intended that any interest paid by the servicer on disputed amounts shall not be recovered through transition *charges* if it is determined that the servicer's claim to the funds is clearly unfounded. No interest shall be paid by the servicer if it is determined that the servicer has received inaccurate metering data from another entity providing competitive metering services pursuant to Utilities Code § 39.107.

(h) Metering Data. If the servicer is providing the metering, metering data will be provided to the REP at the same time as the billing. If the servicer is not providing the metering, the entity providing metering services will be responsible for complying with Commission rules and ensuring that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the Servicing Agreement and this Financing Order with respect to billing and true-ups.

(i) Charge-Off Allowance. The REP will be allowed to hold back an allowance for charge-offs in its payments to the servicer. Such charge-off rate will be recalculated each year in connection with the annual true-up procedure. In the initial year, REPs will be allowed to remit payments based on the same system-wide charge-off percentage then being used by the servicer to remit payments to the indenture trustee for the holders of transition bonds. On an annual basis in connection with the true-up process, the REP and the servicer will be responsible for reconciling the amounts held back with amounts actually written off as uncollectible in accordance with the terms agreed to by the REP and the servicer, provided that:

(1) The REP's right to reconciliation for write-offs will be limited to customers whose service has been permanently terminated and whose entire accounts

(i.e., all amounts due the REP for its own account as well as the portion representing transition charges) have been written off.

(2) The REP's recourse will be limited to a credit against future transition charge payments unless the REP and the servicer agree to alternative arrangements, but in no event will the REP have recourse to the indenture trustee, the SPE or the SPE' s funds for such payments.

(3) The REP shall provide information on a timely basis to the servicer so that the servicer can include the REP's default experience and any subsequent credits into its calculation of the adjusted transition charge rates for the next transition charge billing period and the REP's rights to credits will not take effect until after such adjusted transition charge rates have been implemented.

(j) Service Termination. In the event that the servicer is billing customers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules. In the event that a REP or the POLR is billing customers for transition charges, the REP shall have the right to transfer the customer to the POLR (or to another certified REP) or to direct the servicer to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules.

59. The billing and collection standards for REPs and the applicability of those standards are appropriate for the collection of transition charges resulting from this Financing Order, are reasonable and will lower risks associated with the collection of transition charges and will result in lower transition-bond charges and greater benefits to ratepayers. In addition, adoption of these standards will provide uniformity of standards for the billing and collection of transition charges under financing orders by REPs. Therefore, the proposed billing and collection standards for REPs and the applicability of those standards described in Findings of Fact Nos. 57 and 58 should be approved.

60. Prior to the introduction of customer choice,[34] Applicant will collect transition charges out of the bundled rates and will remit the amount of the transition charges to the indenture trustee for the account of the SPE. Beginning on the date of introduction of customer choice (including any customer-choice pilot programs under PURA § 39.104), Applicant or the current servicer of the transition bonds, as required under PURA § 39.107(d), will bill a customer's REP for the transition charges attributable to that customer. PURA § 39.107(d) provides that the REP must pay these transition charges. This proposal for collection of transition charges prior to the start of customer choice is reasonable and should be approved.

Transition Bonds

61. The SPE will issue and sell transition bonds in one or more series, and each series may be issued in one or more classes or tranches. The legal final maturity date of any series of transition bonds will not exceed 15 years from the date of issuance of such series. The legal final maturity date of each series and class or tranche within a series and amounts in each series will be finally determined by Applicant and the Commission, acting through its designated personnel or financial advisor, consistent with market conditions and indications of the rating agencies, at the time the transition bonds are issued. Applicant will retain sole discretion regarding whether or when to assign, sell, or otherwise transfer any rights concerning transition property arising under this Financing Order, or to cause the issuance of any transition bonds authorized in this Financing Order, subject to the right of the Commission to participate in the pricing and structure of the transition bonds. It is proposed that the SPE issue the transition bonds on or after the third business day after Applicant has filed its issuance advice letter in accordance with this Financing Order unless, prior to such third business day, the Commission issues an order finding that the proposed issuance does not comply with the requirements established by this Financing Order.

62. The Company initially proposed to establish an amortization schedule for the transition bonds based on a front-end loaded amortization of the transition-bond principal. This front-end loaded schedule would result in transition charges that are higher in the first years of retail competition and that decline over the recovery period of the transition bonds.

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[34] *See* PURA § 39.101-102.

63. The Company's proposed structure of the transition bonds with respect to the maturities and classes or tranches of the transition bonds is reasonable and should be approved, provided that the weighted average interest rate for the bonds does not exceed 8.75% on an annual basis, the expected maximum bond life is 12 years, and a levelized recovery structure is used. These restrictions are necessary to ensure that the stated economic benefits to ratepayers materialize. To further ensure benefits to ratepayers, the Commission's financial advisor should be charged with the obligation to ensure that the structure and pricing of the transition bonds results in the lowest transition-bond charges consistent with market conditions and the protection of a competitive retail electric market. To protect the competitiveness of this market, the transition-bond amortization schedule must be based on a levelized recovery structure, except when required by a true-up of transition charges to collect an additional amount necessary to recoup undercollections from a prior period. The levelized recovery structure will result in transition charges that will likely decline over time due to increases in load growth and should benefit the competitiveness of the retail electric market. The Commission's financial advisor should also be charged with the obligation to protect the competitiveness of the retail electric market in a manner consistent with this Financing Order.

Security for Transition Bonds

64. The payment of the transition bonds authorized by this Financing Order is to be secured by the transition property created by this Financing Order and by certain other collateral as described in the Company's application. The transition bonds will be issued pursuant to an indenture administered by the indenture trustee. The indenture will include provisions for a collection account and included subaccounts for the collection and administration of the transition charges and payment or funding of the principal and interest on the transition bonds and other costs, including fees and expenses, in connection with the transition bonds, as described in the Company's application. Pursuant to the indenture, the SPE will establish a collection account as a trust account to be held by the indenture trustee as collateral to ensure the payment of the principal, interest, and other costs approved in this Financing Order related to the transition bonds in full and on a timely basis. The collection account will include the general

subaccount, the overcollateralization subaccount, the capital subaccount, and the reserve subaccount, and may include other subaccounts.

i. The General Subaccount.

65. The indenture trustee will deposit the transition-charge remittances that the servicer remits to the indenture trustee for the account of the SPE into one or more segregated trust accounts and allocate the amount of those remittances to the general subaccount. The indenture trustee will on a periodic basis apply moneys in this subaccount to pay expenses of the SPE, to pay principal and interest on the transition bonds, and to meet the funding requirements of the other subaccounts. The moneys in the general subaccount will be invested by the indenture trustee in short-term high-quality investment, and such moneys (including investment earnings) will be applied by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement.

ii. ***The Overcollateralization Subaccount.***

66. The overcollateralization subaccount will be periodically funded from transition-charge remittances over the life of the transition bonds. The aggregate amount and timing of the actual funding will depend on tax and rating-agency requirements, and is expected to be not less than 0.5 % of the original principal amount of the transition bonds. This subaccount will serve as collateral to ensure timely payment of principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. To the extent that the overcollateralization subaccount must be drawn upon to pay any of these amounts due to a shortfall in the transition-charge remittances, it will be replenished through future transition-charge remittances to its required level through the true-up process. The moneys in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such moneys (including investment earnings) will be used by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement.

iii. ***The Capital Subaccount.***

67. When a series of transition bonds is issued, the Applicant will make a capital contribution to the SPE for that series, which the SPE will deposit into the Capital Subaccount. The amount

of the capital contribution is expected to be not less than 0.5% of the original principal amount of each series of transition bonds, although the actual amount will depend on tax and rating agency requirements. The Capital Subaccount will serve as collateral to ensure timely payment of principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. To the extent that the Capital Subaccount must be drawn upon to pay these amounts due to a shortfall in the transition charge remittances, it will be replenished through future transition-charge remittances to its original level through the true-up process. The moneys in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such moneys (including investment earnings) will be used by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. Upon maturity of the transition bonds and the discharge of all obligations that may be paid by use of transition charges, all moneys in the capital subaccount, including any investment earnings, will be released to the SPE for payment to Applicant. Investment earnings in this subaccount may be released earlier in accordance with the indenture.

68. The capital contribution to the SPE should be funded by the Company, and the amount of the proceeds from the sale of the transition bonds that are used to retire or refund Applicant's debt or equity securities should not be offset by the amount of this capital contribution to ensure that ratepayers receive the appropriate benefit from the securitization approved in this Financing Order.

iv. The Reserve Subaccount.

69. The Reserve Subaccount will hold any transition-charge remittances and investment earnings on the Collection Account in excess of the amounts needed to pay current principal and interest on the transition bonds and to pay all of the other components of the Periodic Payment Requirement (including, but not limited to, funding or replenishing the Overcollateralization Subaccount and the Capital Subaccount). Any balance in the Reserve Subaccount on a true-up adjustment date will be subtracted from the Periodic Payment Requirement for purposes of the true-up adjustment. The moneys in this subaccount will be invested by the indenture trustee in short-term high-quality investments, and such moneys (including investment earnings thereon)

will be used by the indenture trustee to pay principal and interest on the transition bonds and all other components of the Periodic Payment Requirement.

General Provisions.

70. The Collection Account and the subaccounts described above are intended to provide for full and timely payment of scheduled principal and interest on the transition bonds and all other components of the Periodic Payment Requirement. If the amount of transition charges remitted to the General Subaccount is insufficient to make all scheduled payments of principal and interest on the transition bonds and to make payment on all of the other components of the Periodic Payment Requirement, the Reserve Subaccount, the Overcollateralization Subaccount, and the Capital Subaccount will be drawn down, in that order, to make those payments. Any deficiency in the Overcollateralization Subaccount or the Capital Subaccount due to such withdrawals must be replenished first to the Capital Subaccount and then to the Overcollateralization Subaccount on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources (i.e., amounts received from REPs), or to be used for specified purposes. Such accounts will be administered and utilized as set forth in the servicing agreement and the indenture. Upon the maturity of the transition bonds and the discharge of all obligations in respect thereof, remaining amounts in the Collection Account will be released by the SPE to Applicant and, other than amounts that were in the Capital Subaccount, will be credited to customers consistent with PURA § 39.262(g).

71. The use of a collection account and its subaccounts in the manner proposed by the Company is reasonable, will lower risks associated with the securitization and thus lower the costs to ratepayers, and should, therefore, be approved.

Refinancing

72. The Company also seeks authorization, subject to an approved supplement to this Financing Order, to allow it, or the SPE, or any assignee to refinance the transition bonds sought in this docket in a face amount not to exceed the unamortized principal amount of the transition bonds approved in this Financing Order, consistent with PURA § 39.303(g). The Company

proposed that the Commission issue in the future a supplemental order to this Financing Order, based upon a supplementation of the Company's application filed in this docket, to approve these new transition bonds.

73. It is premature to approve a refinancing of the transition bonds approved in this Financing Order. Under PURA § 39.303(d), this Financing Order is irrevocable and not subject to further action of the Commission, except through the true-up mechanism under PURA § 39.307. The Commission may issue a financing order providing for retiring and refunding transition bonds under PURA § 39.303(g), but only upon a finding that the future transition charges required to service the new transition bonds, including transaction costs, will be less than the future transition charges required to service the transition bonds being refunded. The Company has not provided any information that would allow the Commission to make the required statutory finding and the Commission may not approve the refinancing sought by the Company. The Company is not precluded, however, from filing a request in the future to retire or refund the transition bonds approved in this Financing Order upon a showing that the statutory criterion in PURA § 39.303(g) is met.

Transition Charges—Imposition and Collection. Nonbypassability, and Self-Generation.

74. Applicant seeks authorization to impose on and collect from retail customers and REPs transition charges in an amount sufficient to provide for the timely recovery of its qualified costs approved in this Financing Order (including payment of principal and interest on the transition bonds and ongoing costs related to the transition bonds).

75. Transition charges will be described on bills presented to retail customers and REPs to the extent provided in the Application.

76. If there is a shortfall in payment by a retail customer of an amount billed to that customer, the amount paid will first be proportioned between the transition charges and other fees and charges, other than late fees, and second, any remaining portion of the payment will be attributed to late fees. This allocation will facilitate a proper balance between the competing claims to this

source of revenue in an equitable manner. All payments made by REPs are governed by the REP standards addressed in Findings of Fact Nos. 57 and 58.

77. The Company in Docket No. 21527 proposed that the transition charges related to a series of transition bonds will be recovered over a period of not more than 15 years from the date of issuance of that series of the transition bonds but that delinquencies and end of period billings may be collected after the conclusion of the 15-year period.

78. PURA § 39.303(b) prohibits the recovery of transition charges for a period of time that exceeds 15 years. Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of bonds. This restriction does not, however, prevent the recovery of amounts due through judicial process.

79. Transition charges will be collected from all existing retail customers of Applicant and all future retail customers located within Applicant's certificated service area as it existed on May 1, 1999. In accordance with PURA § 39.252(c), a retail customer within such area may not avoid transition charges by switching to another electric utility, electric cooperative or municipally-owned utility after May 1, 1999. However, a customer in a multiply-certificated service area that requested to switch providers on or before May 1, 1999, or was not taking service from Applicant on May 1, 1999, and does not do so after that date, will not be responsible for paying transition charges.

80. Except as provided by PURA §§ 39.262(k) and 39.252, as implemented by P.U.C. SUBST. R. 25.345, a retail customer may not avoid the payment of transition charges by switching to *new*, on-site generation. If a customer commences taking energy from new on-site generation that materially reduces the customer's use of energy delivered through Applicant's facilities, the customer will pay an amount each month computed by multiplying the output of the on-site generation utilized to meet the internal electrical requirements of the customer by the applicable transition charges in effect for that month. Any reduction equivalent to more than 12.5% of the customer's annual average use of energy delivered through Applicant's facilities will be considered material for this purpose. Payments of the transition charges owed by such

customers under PURA § 39.252(b)(2) will be made to the customer's REP, if any, or to the servicer (as defined in this Order) and will be collected in addition to any other charges applicable to services provided to the customer through Applicant's facilities and any other competition transition charges applicable to self-generation under PURA § 39.252.

81. The Company's proposal related to imposition and collection of transition charges is reasonable and is necessary to ensure collection of transition charges sufficient to support recovery of the qualified costs approved in this Financing Order and should be approved. It is reasonable to approve the form of Applicant's tariff in this Financing Order and require that a tariff be filed before any transition bonds **are issued.**

Allocation of Transition Charges Among Texas Retail Customers

82. The energy consumption of Texas-retail customers measured at the meter for the twelve-month period ending immediately prior to May 1, 1999 and adjusted only for normal weather conditions and line losses should be used to calculate the residential customers' regulatory asset allocation factor (RAAF). This methodology is in compliance with PURA § 39.253(g) and P.U.C. SUBST. R. 25.345(h)(2)(v).

83. PURA § 39.253(c) through (e) requires the use of the methodology used to allocate costs of the underlying assets in the electric utility's most recent Commission order addressing rate design as a basis for developing the allocation of stranded costs among the classes. The most recent docket addressing Applicant's rate design was Docket No. 18490. The Commission approved the use of an average and excess non-coincident peak (A&E-NCP) methodology to allocate Applicant's costs. Therefore, use of the A&E-NCP demand allocators calculated in Docket No. 18490 as adjusted to remove wholesale customers is reasonable and appropriate and should be approved.

84. No pro forma adjustments should be made to the demand allocators to remove anticipated qualifying co-generation projects under PURA § 39.262(k) before calculating the RAAFs.

85. The Company proposed that its retail rate schedules be grouped together into seven regulatory asset recovery classes for purposes of the billing and collection of the transition charge, as follows:

Regulatory Asset Recovery Class	Retail Rate Schedules
Residential Service	R, RLU, RTU, RTU1, RTU1-M, RRE
General Service Secondary	GS, S-Sec, GSR, MS, MP-Sec GTU-Sec, GTU-M-Sec, RTP-Sec, GC-Sec, and all riders excluding interruptible
General Service Primary	GPp$_i$ [1]S-Pri, GPR, MS-Pri, MP-Pri, GTU-Pri, GTU-M-Pri, RTP-Pri, GC-Pri, and all riders excluding interruptible
High Voltage Service	HV, S-Tran, HVR, GTU-Tran GTU-M-Tran, RTP-Tran, GC-Tran, and all riders excluding interruptible
Lighting Service	OL, SL, SL-Pri
Instantaneous Interruptible	GSI, GPI, HVI, SSI, SPI, STI, GSRTPI1, GSRTP1M, GSRTPID, GPRTPI1, GPRTPIM, GPRTPID, HVRI, HVRTPIM, HVRTPlD, and applicable riders
Noticed Interruptible	GSNI, GSNB, GPNI, GPNB, HVNI, NVNB, GTUC-Sec, GTUC-Pri, GTUC-Tran, GTUC-M-Sec, GTUC-M-Pri, GTUC-M-Tran, GSRTPNI, GPRTPNI, HVRTPNI, and applicable riders.

The Company's proposed consolidation was designed to produce a small number of classes of sufficient size such that any one class would be unlikely to lose all of its customers, while not grouping together customers with highly disparate usage, voltage level, or other characteristics. The Company's proposed regulatory asset recovery classes are reasonable and should be approved.

86. The Company proposed that, once billing under the RARC tariff begins, a customer continue to be billed, for the duration of the tariff, on the RARCF that applied to the Regulatory Asset Recovery Class that the customer was initially placed in, regardless of whether the customer subsequently changes to another rate class. This concept is known as "tagging" and is designed to prevent customers from switching classes in an attempt to obtain a lower transition charge. To implement this proposal, Applicant proposed that certain language be included in the tariff. The "tagging" concept is reasonable and should be implemented.

87. The following procedure is used to the develop the RAAFs in this Financing Order:

(a) The allocation to the residential class is determined according to the procedure specified in PURA § 39.253(c), and a described in Findings of Fact Nos. 82 and 83;

(b) The RAAF for the non-firm class is developed by multiplying the adjusted generation demand allocator developed in compliance with the methodology described in Findings of Fact Nos. 82 through 84 by 1.5. The RAAF for the non-firm class, once calculated, is applied to the total amount of costs to be allocated among all of the customer classes; and

(c) The allocation to the remaining classes is determined according to the procedure specified in PURA § 39.253(e), and as described in Findings of Fact Nos. 82 through 84.

88. The Company proposed that all classes be billed the transition charge on a kWh basis. To better track the basis upon which the securitized costs were incurred, it is more reasonable for each customer that is exclusively demand metered to be billed the transition charge on a kW basis, and each customer that is exclusively energy metered by billed on a kWh basis.

89. The transition charges collected *under* this Financing Order applicable to the General Service Secondary (GS) and General Service Primary (GP) classes will be separately determined for demand-metered and non-demand-metered customers, respectively, as follows:

(a) First, the transition charge applicable to non-demand-metered customers shall be derived by dividing the total regulatory asset recovery class Periodic Billing Requirement by the total projected class kilowatt-hour sales for the period. The total dollar amount estimated to be recovered from non-demand-metered customers will be the product of the

derived transition charge and the projected kilowatt-hour sales to non-demand-metered customers.

(b) The transition charges applicable to demand-metered customers shall be derived by subtracting the total dollar amount estimated to be recovered from non-demand-metered customers from the total regulatory asset recovery class Periodic Billing Requirement and dividing the result by the projected billing demand for the period. Billing demand will be determined using the definition of billing demand in the Applicant's applicable then-current Commission-approved tariffs.

90. The RAAFs in the following table are developed in accordance with the specific procedures set forth in PURA § 39.253 and should be approved:

Class	*RAAF*
Residential	41.2705%
General Service — Secondary	44.7323%
General Service — Primary	5.8982%
High Voltage Service	2.7875%
Lighting Service	0.6836%
Instantaneous Interruptible	1.8568%
Noticed Interruptible	2.7711%
Total	100.0000%

Should any of the Regulatory Asset Recovery Classes cease to have any customers, the RAAFs will be adjusted proportionately such that the sum of the RAAFs equals 100.0000%. For Rate S and Rider SI customers, the transition charge will be a pro-rated daily demand charge based on the otherwise applicable non-standby transition charge.

True-Up of Transition Charges

91. Pursuant to PURA § 39.307, the servicer of the transition bonds will make annual adjustments to the transition charges to:

(a) correct any undercollections or overcollections, including without limitation any caused by REP defaults, during the preceding 12 months; and

(b) ensure the billing of transition charges necessary to generate the collection of amounts sufficient to timely provide all scheduled payments of principal and interest (or deposits to sinking funds in respect of principal and interest) and any other amounts due in connection with the transition bonds (including ongoing fees and expenses and amounts required to be deposited in or allocated to any collection account or subaccount) during the period for which such adjusted transition charges are to be in effect.

Such amounts are referred to as the "Periodic Payment Requirement" and the amounts necessary to be billed to collect such Periodic Payment Requirement are referred to as the "Periodic Billing Requirement". With respect to any series of transition bonds, the servicer will make true-up adjustment filings with the Commission at least annually, within 45 days of the anniversary of the date of the original issuance of the transition bonds of that series.

92. True-up filings will be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement (including scheduled principal and interest payments on the transition bonds), and the amount of transition-charge remittances to the indenture trustee. True-up procedures are necessary to ensure full recovery of amounts sufficient to meet the Periodic Payment Requirement over the expected life of the transition bonds. In order to assure adequate transition-charge revenues to fund the Periodic Payment Requirement and to avoid large overcollections and undercollections over time, the servicer will reconcile the transition charges using Applicant's most recent forecast of electricity deliveries (i.e., forecasted billing units) and estimates of transaction-related expenses. The calculation of the transition charges will also reflect both a projection of uncollectible transition charges and a projection of payment lags between the billing and collection of transition charges based upon the most recent experience of Applicant and the REPs regarding the payment of transition charges.

93. The servicer will make reconciliation adjustments in the following manner, known as the standard true-up procedure:

(a) allocate the upcoming period's Periodic Billing Requirement based on the RAAFs approved in this Financing Order;

(b) calculate undercollections or overcollections, including without limitation any caused by REP defaults, from the preceding period in each class;

(c) sum the amounts allocated to each customer class in steps (a) and (b) to determine an adjusted Periodic Billing Requirement for each transition charge customer class; and

(d) divide the amount assigned to each customer class in step (c) above by the appropriate 'forecasted billing units to determine the transition charge rate by class for the upcoming period. For the General Service Secondary and General Service Primary classes, the two-step procedure described in Finding of Fact No. 89 will be used to calculate a transition charge factor in dollars per kilowatt-hour for non-demand-metered customers and a transition charge factor in dollars per kilowatt for demand-metered customers.

Interim True-Up.

94. In addition to these annual true-up adjustments, true-up adjustments may be made by the servicer more frequently at any time during the term of the transition bonds to correct any undercollection or overcollection, as provided for in this Financing Order, based on rating agency and bondholder considerations. In addition to the foregoing, either of the following two conditions may invoke an interim true-up adjustment in the month prior to an upcoming transition bond principal payment date:

(a) the servicer determines that collection of transition charges for the upcoming payment date would result in a difference that is greater than 5% in absolute value, between (i) the actual outstanding principal balances of the transition bonds plus amounts on deposit in the reserve subaccount and (ii) the outstanding principal balances anticipated in the expected amortization schedule; or

(b) to meet a rating agency requirement that any series of transition bonds be paid in full by the expected maturity date, for any series of transition bonds that matures after a date determined mutually by the Applicant and the Commission's designated personnel or financial advisor at the time of pricing.

95. In the event an interim true-up is necessary, the interim true-up adjustment should be filed by the servicer on the fifteenth day of the current month for implementation in the first

billing cycle of the following month. In no event would such interim true-up adjustments occur more frequently than every three months if quarterly transition bond payments are required or every six months if semi-annual transition bond payments are required.

Non-Standard True-Up.

96. A non-standard true-up procedure will be applied if the forecasted billing units for one or more of the transition charge customer classes for an upcoming period decreases by more than 10% compared to the billing units for the 12 months ending April 30, 1999 (known as the threshold billing units), shown in Appendix G to this Financing Order.

97. In conducting the non-standard true-up the servicer will:

(a) allocate the upcoming period's Periodic Billing Requirement based on the RAAFs approved in this Financing Order;

(b) calculate undercollections or overcollections, including without limitation any caused by REP defaults, from the preceding period in each class;

(c) sum the amounts allocated to each customer class in steps (a) and (b) to determine an adjusted Periodic Billing Requirement for each transition charge customer class;

(d) divide the Periodic Billing Requirement for each customer class by the maximum of the forecasted billing units or the threshold billing units for that class, to determine the "threshold rate";

(e) multiply the threshold rate by the forecasted billing units for each class to determine the expected collections under the threshold rate;

(f) allocate the difference in the adjusted Periodic Billing Requirement and the expected collections calculated in step (e) among the transition charge customer classes using the RAAFs approved in this Financing Order;

(g) add the amount allocated to each class in step (0 above to the expected collection amount by class calculated in step (e) above to determine the final Periodic Billing Requirement for each class; and

(h) divide the final Periodic Billing Requirement for each class by the forecasted billing units to determine the transition charge rate by class for the upcoming period. For the General Service Secondary and General Service Primary classes, the two-step

procedure described in Finding of Fact No. 89 will be used to calculate a transition charge factor in dollars per kilowatt-hour for non-demand-metered customers and a transition charge factor in dollars per kilowatt for demand-metered customers.

98. A proceeding for the purpose of approving a non-standard true-up should be conducted in the following manner:

(a) The servicer will make a "non-standard true-up filing" with the Commission at least 90 days before the date of the proposed true-up adjustment. The filing will contain the proposed changes to the transition charge rates, justification for such changes as necessary to specifically address the cause(s) of the proposed non-standard true-up, and a statement of the proposed true-up dat.

(b) Concurrently with the filing of the non-standard true-up with the Commission, the servicer will notify all parties in Docket No. 21527 of the filing of the proposal for a nonstandard true-up.

(c) The servicer will issue appropriate notice and the Commission will conduct a contested case proceeding on the non-standard true-up proposal pursuant to PURA § 39.003.

The scope of the proceeding will be limited to determining whether the proposed adjustment complies with this Financing Order. The Commission will issue a final order by the proposed true-up adjustment date stated in the non-standard true-up filing. In the event that the Commission cannot issue an order by that date, the servicer will be permitted to implement its proposed changes. Any modifications subsequently ordered by the Commission will be made by the servicer in the next true-up filing.

Additional True-Up Provisions.

99. If, for any reason, the transition charge rate for any customer class exceeds the maximum rate, if any, which customers in such class may then be obligated to pay under PURA § 39.202(a), then both the following provisions should apply:

(a) The transition charge rate for such class will equal such maximum rate.

(b) The rates for the remaining classes will be recalculated using such maximum rate as the transition charge rate for the class that exceeded the maximum rate. The resulting

deficiency will be allocated to the remaining classes based on the ratio of the RAAFs approved in this Financing Order.

100. The true-up adjustment filing will set forth the servicer's calculation of the ***true-up*** adjustment to the transition charges. Except for the non-standard true-up procedure addressed in Findings of Fact Nos. 96 through 98, the Commission will have 15 days after the date of a true-up adjustment filing in which to confirm the mathematical accuracy of the servicer's adjustment. Except for the non-standard true-up procedure described above, any true-up adjustment filed with the Commission will be effective immediately upon filing. Any necessary corrections to the true-up adjustment, due to mathematical errors in the calculation of such adjustment or otherwise, will be made in future true-up adjustment filings.

101. The true-up procedures proposed by the Company are reasonable and will reduce risks related to the transition bonds resulting in lower transition-bond charges and greater benefits to ratepayers and should be approved.

Financial Advisor

102. In order to ensure, as required by PURA § 39.301, that the structuring and pricing of the transition bonds result in the lowest transition-bond charges consistent with market conditions and the terms of this Financing Order, the Commission finds that it is necessary for the Commission, acting through its designated personnel or financial advisor, to have a decision making role co-equal with Applicant with respect to the structuring and pricing of the transition bonds and that all matters relating to the structuring and pricing of the transition bonds shall be determined through a joint decision of Applicant and the Commission's designated personnel or financing advisor. The primary responsibilities of the Commission's financial advisor are to ensure that the structuring and pricing of the transition bonds result in the lowest transition-bond charges consistent with market conditions and the terms of this Financing Order and that it protects the competitiveness of the retail electric market in this state. To fulfill its obligations under this Financing Order, the Commission's financial advisor must give effect to the Commission's directive that the caps in this Order related to costs and maximum interest rates are ceilings, not floors.

103. To properly advise the Commission, the Commission's financial advisor must not participate in the underwriting of the transition bonds and its fee should not be based upon a percentage of the transition-bond issuance. Its role should be limited to advising the Commission or acting on behalf of the Commission regarding the structure and pricing of the transition bonds. The financial advisor must, however, have an integral role in the pricing, marketing and structuring of the transition bonds in order to provide competent advice to the Commission. This requires that the financial advisor participate fully and in advance in all plans and decisions related to the pricing, marketing, and structuring of the transition bonds and that it be provided timely information as necessary to fulfill its obligation to advise the Commission in a timely manner. In addition, the financial advisor's fee should be capped at an amount not to exceed $2,450,000 ($942,308 in connection with transition bonds issued before 2004), of which $718,667 ($276,410 in connection with transition bonds issued before 2004) will come from the underwriting spread with the remainder to be included in the aggregate cap on the up-front costs to be securitized of $52,586,374 ($20,225,528 in connection with transition bonds issued before 2004).

Lowest Transition-Bond Charges

104. The Company has proposed a transaction structure that includes (but is not limited to):

(a) the use of the SPE as issuer of transition bonds, limiting the risks to bond holders of any adverse impact resulting from a bankruptcy proceeding of its parent or any affiliate;

(b) the right to impose and collect transition charges that are nonbypassable and which must be trued-up at least annually, but may be trued-up more frequently under certain circumstances, in order to assure the timely payment of the debt service and other ongoing transaction costs;

(c) additional collateral in the form of a collection account which includes a capital subaccount of not less than 0.5% of the initial principal amount of the transition bonds and an overcollateralization subaccount which builds up over time to equal not less than an additional 0.5% of the initial principal amount of the transition bonds, and other subaccounts, resulting in greater certainty of payment of interest and principal to

investors and that are consistent with the requirements of the Internal Revenue Service that are needed to receive the desired federal income tax treatment for the transition-bond transaction;

(d) protection of bondholders against potential defaults by a servicer or REPs that are responsible for billing and collecting the transition charges from existing or future retail customers;

(e) benefits for federal income tax purposes including: (i) the transfer of the rights under this Financing Order to the SPE will not result in gross income to Applicant and the future revenues under the transition charges will be included in Applicant's gross income in the year in which the related electric service is provided to customers, (ii) the issuance of the transition bonds and the transfer of the proceeds of the transition bonds to Applicant will not result in gross income to Applicant and (iii) the transition bonds will constitute obligations of Applicant;

(f) the transition bonds will be marketed using proven underwriting and marketing processes, through which market conditions, rating agency considerations, and investors' preferences, with regard to the timing of the issuance, the terms and conditions, related maturities, type of interest (fixed or variable) and other aspects of the structuring and pricing will be determined, evaluated and factored into the structuring and pricing of the transition bonds;

(g) participation by the Commission, acting through its designated personnel or financial advisor, on an equal basis with Applicant in determining the pricing and structure of the transition bonds which will help to ensure that benefits to ratepayers as the result of securitization are realized; and

(h) hedging and swap agreements used to mitigate the risk of future rate increases if Applicant and the Commission's designated personnel or financial advisor jointly determine that it is prudent to enter into these types of agreements.

105. The Company's proposed transaction structure, as modified by this Financing Order, is necessary to enable the transition bonds to obtain the highest possible bond credit rating, to ensure that the structuring and pricing of the transition bonds will result in the lowest transition-bond charges consistent with market conditions and this Financing Order, to ensure the greatest

benefit to ratepayers consistent with market conditions, and to protect the competitiveness of the retail electric market.

106. To ensure that ratepayers receive the tangible and quantifiable economic benefits due from the proposed securitization and so that the proposed transition-bond transaction will be consistent with the standards set forth in PURA §§ 39.301 and 39.303, it is necessary that (i) the effective annual weighted average interest rate of the transition bonds, excluding up-front and ongoing costs, does not exceed 8.75%, (ii) the expected maximum life of the longest bonds does not exceed 12 years (although the legal maximum life of the bonds may extend to 15 years), (iii) the Periodic Billings Requirement as modified by this Financing Order is structured to be consistent with the amortization of the transition bonds based on a levelized recovery structure, (iv) up-front and ongoing costs to issue', service and support the transition bonds and costs to refund and retire the debt and equity not exceed the appropriate aggregate caps established in this Financing Order and (v) Applicant otherwise satisfies the requirements of this Financing Order. In the event there is more than one transaction, each such transaction must result in ratepayers receiving tangible and quantifiable economic benefits both separately and in the aggregate with all prior transactions.

107. To allow the Commission to fulfill its obligations under PURA related to the securitization approved in this Financing Order, it is necessary for Applicant, for each series of transition bonds issued, to certify to the Commission that the structure and pricing of that series results in the lowest transition-bond charges consistent with market conditions at the time that the transition bonds are priced and the general parameters (including the protection of the competitiveness of the retail electric market) set out in this Financing Order.

D. Use of Proceeds

Refinancing or Retirement of Utility Debt and Equity

108. Upon the issuance of transition bonds, the SPE will use the net proceeds from the sale of the transition bonds (after payment of transaction costs) to pay to Applicant the purchase price of the transition property.

109. The net proceeds from the sale of the transition bonds (after payment of transaction costs) will be applied to a refinancing or retirement of Applicant's debt or equity, or both, with the goal of maintaining a balanced capital structure and at least an investment grade credit rating. The ratios of debt and equity to total capitalization after securitization are expected to approximate those ratios as they currently exist, excluding consideration of the transition bonds, as described in the Company's application.

110. The debt, preferred equity, and common equity on Applicant's books as of September 30, 1999 (the end of the last quarter for which an SEC Form 10-Q has been filed) were $5,604 million (45% of capitalization), $136 million (1%), and $6,744 million (54%), respectively. As a result of the sale of transition property created pursuant to this Financing Order, the regulatory ' assets shall cease to be recorded on the regulatory books of Applicant and Applicant will receive the net proceeds from the sale of transition bonds. Pursuant to this Financing Order, $1,864,967,000 of recoverable generation-related regulatory assets on Applicant's regulatory books will be reduced through the securitization.

111. The net proceeds from the sale of transition bonds will be used solely to refinance or retire the Company's existing debt or equity and will result in a reduction in the amount of the Company's recoverable regulatory assets and stranded costs.

E. Annual Report Under PURA § 39.257 and Stranded Costs

112. The aggregate amount of the regulatory assets authorized to be securitized by this Financing Order is the sum of the generation-related portion of the Texas-retail jurisdictional portion of the gross-book-value amounts of those regulatory assets as of December 31, 1998.

113. [Deleted]

114. The amortization expense for the regulatory assets securitized under this Financing Order will be excluded from the annual report submitted pursuant to PURA § 39.257 for 1999 and subsequent years.

115. The unamortized balance of the regulatory assets and associated ADIT securitized under this Financing Order will be excluded from rate base in the annual report submitted pursuant to PURA § 39.257 for the year in which the transition bonds are issued and the associated adjustment will be prorated to reflect the portion of that year that the transition bonds are outstanding, to the extent that such treatment is consistent with PURA. For all subsequent years, the unamortized balance of the securitized regulatory assets and associated ADIT will be excluded from the annual report submitted pursuant to PURA § 39.257.

116. The ADIT associated with the regulatory assets securitized under this Financing Order shall not be used to determine the Applicant's rates for transmission or distribution service, calculate stranded costs for the Applicant, or to calculate the Applicant's annual costs or invested capital for the annual report required by PURA § 39.257,

117. To *ensure* tangible and quantifiable benefits to customers from the securitization approved by this Financing Order, the treatments of the regulatory assets and associated ADIT securitized, and the amortization expense related to such regulatory assets for purposes of the annual report under PURA § 39.257 and future determinations of stranded costs set forth in Findings of Fact Nos. 114 through 116 of this Financing Order should be implemented.

IV. CONCLUSIONS OF LAW

1. TXU Electric Company is a public utility, as defined in PURA § 11.004, and an electric utility, as defined in PURA § 31.002(6).

2. The Company is entitled to file an application for a financing order under PURA § 39.301.

3. The Commission has jurisdiction and authority over the Company's initial application, and the provisions of the Stipulation relating to entry of a securitization financing order consistent with the Supreme Court's opinion in TXU Electric Co., *supra,* pursuant to PURA §§ 14.001, 32.001, 39.201 and 39.301-313.

4. The Commission has authority to approve this Financing Order under Subchapters E, F and G of Chapter 39 of PURA.

4A. The Stipulation constitutes a binding, enforceable contract among the Joint Applicants, except Commission Staff.

4B. This Financing Order creates a vested right in each Joint Applicant and person affected by the Order entitling that person to relief as specified in this Financing Order.

5. Notice of the Company's initial application, and notice of the Stipulation, was provided in compliance with the Administrative Procedure Act[35] and P.U.C. PROC. R. 22.54 and 22.55.

6. The Company's initial application did not constitute a major rate proceeding as defined by P.U.C. PROC. R. 22.2. The Stipulation likewise does not constitute a major rate proceeding.

7. Only the retail portion of regulatory assets may be recovered through a transition charge assessed against retail customers.

8. The SPE will be an assignee as defined in PURA § 39.302(1) when an interest in . transition property is transferred, other than as security, to the SPE.

9. The holders of the transition bonds and the indenture trustee will each be a financing party as defined in PURA § 39.302(3).

10. Applicant may authorize the SPE to issue transition bonds, and the SPE may issue transition bonds in accordance with this Financing Order.

11. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.301 dictating that the proceeds of the transition bonds shall be used solely for the purposes

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[35] TEX. Gov'T CODE ANN. §§ 2001.001-901 (Vernon 1999)

of reducing the amount of recoverable regulatory assets through the refinancing or retirement of utility debt or equity.

12. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.301 mandating that the securitization provides tangible and quantifiable benefits to ratepayers greater than would have been achieved absent the issuance of transition bonds. Consistent with fundamental financial principles, this requirement in PURA § 39.301 can only be determined using an economic analysis. An economic analysis is one that accounts for the time value of money. An analysis that compares the present value of the traditional revenue requirement associated with the Company's regulatory assets in the aggregate over a 12-year period with the present value of the revenue required under securitization is an appropriate economic analysis to demonstrate whether securitization provides economic benefits to ratepayers. An analysis that shows securitization will provide economic benefits to ratepayers satisfies the requirement for tangible and quantifiable benefits because it quantifies the benefit and demonstrates that the benefit is tangible.

13. The SPE's issuance of the transition bonds approved in this Financing Order in compliance with the criteria established by this Financing Order satisfies the requirement of PURA § 39.301 prescribing that the structuring and pricing of the transition bonds will result in the lowest transition-bond charges consistent with market conditions and the terms of this Financing Order.

14. The amount of regulatory assets approved in this Financing Order for securitization does not exceed the present value of the revenue requirement over the life of the transition bonds approved in this Financing Order that are associated with the regulatory assets sought to be securitized, as required by PURA § 39.301.

15. The securitization approved in this Financing Order satisfies the requirement of PURA § 39.303(a) directing that the total amount of revenues to be collected under this Financing Order be less than the revenue requirement that would be recovered over the remaining life of the

regulatory assets using conventional financing methods and that this Financing Order is consistent with the standards of PURA § 39.301.

16. This Financing Order adequately details the amount of regulatory assets to be recovered and the period over which Applicant will be permitted to recover nonbypassable transition charges in accordance with the requirements of PURA § 39.303(b). Transition charges related to a series of transition bonds may not be collected after 15 years from the date of issuance of that series of bonds. Amounts remaining unpaid after this 15 year-period may be recovered through the use of judicial process.

17. The method approved in this Financing Order for collecting and allocating the transition charges among customers satisfies the requirements of PURA §§ 39.303(c) and 39.253.

18. As provided in PURA § 39.303(d), this Financing Order, together with the transition charges authorized by this Financing Order, is irrevocable and not subject to reduction, impairment, or adjustment by further act of the Commission, except for the true-up procedures approved in this Financing Order, as required by PURA § 39.307.

19. As provided in PURA § 39.304(a), the rights and interests of Applicant or its successor under this Financing Order, including the right to impose, collect and receive the transition charges authorized in this Financing Order, are assignable and shall become transition property when they are first transferred to the SPE.

20. Transition property will constitute a present property right for purposes of contracts concerning the sale or pledge of property, even though the imposition and collection of the transition charges depend on further acts by Applicant or others that have not yet occurred, as provided by PURA § 39.304(b).

21. All revenues and collections resulting from the transition charges will constitute proceeds only of the transition property arising from this Financing Order, as provided by PURA § 39.304(c).

22. Upon the transfer by Applicant of the transition property to the SPE, the SPE will have all of the rights of Applicant with respect to such transition property.

23. Any payment of transition charges by a retail customer to its REP or directly to the servicer will discharge the retail customer's obligations in respect of that payment, but will not discharge the obligations of any REP to remit such payments to the servicer of the transition bonds on behalf of the SPE or an assignee.

24. As provided in PURA § 39.305, the interests of an assignee, the holders of transition bonds, and the indenture trustee in transition/property and in the *revenues* and collections arising ' from that property are not subject to setoff, counterclaim, surcharge, or defense by Applicant or any other person or in connection with the bankruptcy of Applicant or any other entity.

25. The methodology approved in this Financing Order for allocating transition charges complies with PURA §§ 39.253 and 39.303(c). The methodology approved in this Financing Order to true-up the transition charges satisfies the requirements of PURA § 39.307.

26. If and when Applicant transfers to the SPE the right to impose, collect, and receive the transition charges and to issue the transition bonds, the servicer will be able to recover the transition charges associated with such transition property only for the benefit of the SPE and the holders of the transition bonds in accordance with the servicing agreement.

27. If and when Applicant transfers its rights under this Financing Order to the SPE under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the true-sale provisions of PURA § 39.308, then, pursuant to that statutory provision, that transfer will be a true sale of an interest in transition property and not a secured transaction or other financing arrangement and title, legal and equitable, will pass to the SPE. As provided by PURA § 39.308, this true sale shall apply regardless of whether the purchaser has any recourse against the seller, or any other term of the parties' agreement, including the seller's retention of an equity interest in the transition property, Applicant's role as the collector of transition charges

relating to the transition property, or the treatment of the transfer as a financing for tax, financial reporting, or other purposes.

28. As provided in PURA § 39.309(b), a valid and enforceable lien and security interest in the transition property in favor of the holders of the transition bonds or a trustee on their behalf will be created by this Financing Order and the execution and delivery of a security agreement with the holders of the transition bonds or a trustee on their behalf in connection with the issuance of the transition bonds. The lien and security interest will attach automatically from the time that value is received for the transition bonds and, on perfection through the filing of notice with the Secretary of State in accordance with the rules prescribed by the Secretary of State under PURA § 39.309(d), will be a continuously perfected lien and security interest in the transition property and all proceeds of the transition property, whether *accrued* or not, will *have* priority in the order of filing and will take precedence over any subsequent judicial or other lien creditor.

29. As provided in PURA § 39.309(c), the transfer of an interest in transition property to an assignee will be perfected against all third parties, including subsequent judicial or other lien creditors, when this Financing Order becomes effective, transfer documents have been delivered to that assignee, and a notice of that transfer has been filed in accordance with the rules prescribed by the Secretary of State under PURA § 39.309(d); provided, however, that if notice of the transfer has not been filed in accordance with this process within 10 days after the delivery of transfer documentation, the transfer of the interest will not be perfected against third parties until the notice is filed. The proposed transfer to the SPE of Applicant's rights under this Financing Order will be a transfer of an interest in transition property for purposes of PURA § 39.309(c).

30. As provided in PURA § 39.309(e), the priority of a lien and security interest perfected in accordance with PURA § 39.309 will not be impaired by any later change in the transition charges pursuant to PURA § 39.307 or by the commingling of funds arising from transition charges with other *funds, and* any other security interest that may apply to those funds will be terminated when they are transferred to a segregated account for an assignee or a financing party.

To the extent that transition charges are not collected separately from other funds owed by retail customers or REPs, the amounts to be remitted to such segregated account for an assignee or a financing party may be determined according to system-wide charge off percentages, collection curves or such other reasonable methods of estimation, as are set forth in the servicing agreement

31. As provided in PURA § 39.309(e), if transition property is transferred to an assignee, any proceeds of the transition property will be treated as held in trust for the assignee.

32. As provided in PURA § 39.309(t), if a default or termination occurs *under* the transition bonds, the financing parties or their representatives may foreclose on or otherwise enforce their lien and security interest in any transition)' property as if they were secured parties *under* Chapter 9, Texas Business and Commerce Code, and, upon application by or on behalf of the financing parties, the Commission may order that amounts arising from the transition charges be transferred to a separate account for the financing parties' benefit, to which their lien and security interest may apply.

33. As provided in PURA § 39.309(f), if a default or termination occurs under the transition bonds, on application by or on behalf of the financing parties, a district court of Travis County, Texas shall order the sequestration and payment to those parties of revenues arising from the transition charges.

34. As provided by PURA § 39.310, the transition bonds authorized by this Financing Order are not a debt or obligation of the State of Texas and are not a charge on its full faith and credit or taxing power.

35. Pursuant to PURA § 39.310, the State of Texas has pledged for the benefit and protection of all financing parties and Applicant that it (including the Commission) will not take or permit any action that would impair the value of transition property, or, except as permitted by PURA § 39.307, reduce, alter or impair the transition charges to be imposed, collected, and remitted to any financing parties, until the principal, interest and premium, and any other charges *incurred* and contracts to be performed in connection with the transition bonds have been paid and

performed in full. The SPE, in issuing transition bonds, is authorized pursuant to PURA § 39.310 and this Financing Order to include this pledge in any documentation relating to the transition bonds.

36. As provided in PURA § 39.311, transactions involving the transfer and ownership of the transition property and the receipt of transition charges are exempt from state and local income, sales, franchise, gross receipts, and other taxes or similar charges.

37. This Financing Order will remain in full force and effect and unabated notwithstanding the bankruptcy of Applicant, its successors, or assignees.

38. Applicant retains sole discretion regarding whether or when to assign, sell or otherwise transfer the rights and interests created by this Financing Order or any interest therein or, subject to the approval of the Commission acting through its designated representative or financial advisor, to cause the issuance of any transition bonds authorized by this Financing Order.

39. This Financing Order is final, is not subject to rehearing by this Commission, and is not subject to review or appeal except as expressly provided in PURA § 39.303(f). The finality of this Financing Order is not impaired in any manner by the participation of the Commission through its designated personnel or financial advisor in any decisions related to issuance of the transition bonds or by the Commission's review of or issuance of an order related to the issuance advice letter required to be filed with the Commission by this Financing Order.

39A. This Financing Order, while issued in conjunction with and consistent with the Stipulation and Order in Docket No. 25230, is a separate final order, the appeal of which is to be conducted pursuant to PURA § 39.303(f). The finality of this Financing Order is not impacted by the actions or inactions taken by the Commission with respect to other portions of the Stipulation considered in this proceeding. Should any other order entered in this proceeding, if appealed to the courts, not be upheld in full on appeal, such judicial ruling will in no event impact or modify the finality or effectiveness of this Financing Order

40. This Financing Order meets the requirements for a financing order under Subchapter G of Chapter 39 of PURA.

41. The provisions of this Financing Order relating to the treatment of the securitized regulatory assets and the amortization expense on the securitized regulatory assets for purposes of the annual report under PURA § 39.257 and subsequent determinations of Applicant's stranded costs comport with PURA §§ 39.201, 39.258, and 39.262 and all other applicable provisions of Chapter 39 of PURA.

V. ORDERH4G PARAGRAPHS

Based upon the record, the Findings of Fact and Conclusions of Law set forth herein, and for the reasons stated above, this Commission orders:

1. Approval of Application. The application of TXU Electric Company, as amended by the request of the Company as found in the Stipulation and the testimony of Company witness Moseley, for the issuance of a financing order under PURA §§ 39.201(i) and 39.303 is approved as provided in this Financing Order.

2. Authority to Securitize. Applicant may securitize the amount of regulatory assets and other qualified costs detailed in Appendix C to this Financing Order in the manner provided by this Financing Order. In the event there is more than one transaction, each such transaction must result in ratepayers receiving tangible and quantifiable economic benefits both separately and in the aggregate with all prior transactions. The excess of any amounts securitized (including interest) over the actual amounts incurred by Applicant for up-front costs plus the reacquisition costs shall be provided as a credit in Applicant's ECOM proceeding, true up proceeding,[36] or a future securitization proceeding under Findings of Fact Nos. 91-101.

[36] *See* PURA § 39.262.

3. Recovery of Transition Charges. Applicant shall impose on, and the servicer shall collect from, retail customers and REPs, as provided in this Financing Order, transition charges in an amount sufficient to provide for the timely recovery of its aggregate qualified costs detailed in Appendix C to this Financing Order (including payment of principal and interest on the transition bonds).

4. Issuance Advice Letter. Following determination of the final terms of the transition bonds and prior to issuance of the transition bonds, Applicant, in consultation with the Commission acting through its designated personnel or financial advisor, shall file with the Commission an issuance advice letter in substantially the form of the issuance advice letter attached as Appendix E to this Financing Order. As part of the issuance advice letter, Applicant shall make the certification addressed in Finding of Fact No. 107 through an officer of Applicant. The issuance advice letter shall be completed and evidence the actual dollar amount of the initial transition charges and other information specific to the transition bonds to be issued, and shall certify to the Commission that the structure and pricing of that series results in the lowest transition-bond charges consistent with market conditions at the time that the transition bonds are priced and the general parameters (including the protection of the competitiveness of the retail electric market) set out in this Financing Order. All amounts which require computation shall be computed using the mathematical formulas contained in the form of the issuance advice letter attached as Appendix E and the Transition Charge Rate Tariff approved in this Financing Order and attached as Appendix D. The Commission's review of the issuance advice letter shall be limited to the arithmetic accuracy of the calculations and to compliance with the specific requirements that are contained in the issuance advice letter. The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the later of the third business day after submission to the Commission or the date of issuance of the transition bonds unless, prior to such third business day, the Commission issues an order finding that the proposed issuance does not comply with the requirements set forth above in this Ordering Paragraph.

5. Approval of Tariff. The form of the Transition Charge Rate Tariff attached as Appendix D to this Financing Order is approved. Prior to the issuance of any transition bonds

under this Financing Order, Applicant shall file a tariff that conforms to the form of the Transition Charge Rate Tariff attached in Appendix D.

A. Transition Charges

6. Imposition and Collection; SPE's Rights and Remedies. Applicant is authorized to impose on, and the servicer is authorized to collect from, retail customers and REPs, as provided in this Financing Order, transition charges in an amount sufficient to provide for the timely recovery of the aggregate Periodic Payment Requirement (including payment of principal and interest on the transition bonds), as approved in this Financing Order. If there is a shortfall in payment by a retail customer of an amount billed to that customer, the amount paid shall first be proportioned between the transition charges and other fees and charges, other than late fees, and second, any remaining portion of the payment shall be attributed to late fees. Upon the transfer by Applicant of the transition property to the SPE, the SPE shall have all of the rights of Applicant with respect to such transition property, including, without limitation, the right to exercise any and all rights and remedies with respect thereto, including the right to authorize disconnection of electric service and to assess and collect any amounts payable by any retail customer in respect of the transition property.

7. Collector of Transition Charges. Prior to the introduction of customer choice, Applicant shall collect transition charges out of its bundled rates and shall remit the amount of the transition charges to the indenture trustee for the account of the SPE. Beginning on the date of introduction of customer choice (including any customer-choice pilot programs under PURA § 39.104), Applicant or the current servicer of the transition bonds shall bill a customer's REP for the transition charges attributable to that customer and the REP shall pay the amount billed for transition charges, less the applicable charge-off allowance as provided in Findings of Fact Nos. 57 and 58, to the servicer of the transition bonds.

8. Collection Period. The transition charges related to a series of transition bonds shall be recovered over a period of not more than 15 years from the date of issuance of that series of transition bonds. Amounts remaining unpaid after this 15-year period may be recovered through use of judicial process.

9. Allocation. Applicant shall allocate the transition charges among customers in the manner described in Findings of Fact Nos. 82 through 90 of this Financing Order.

10. Nonbypassabilitv. Applicant and any other entity providing electric transmission or distribution services and any REP providing services to any retail customer within Applicant's certificated service area as it existed on May 1, 1999, are entitled to collect and must remit, consistent with this Financing Order, the transition charges from such retail customers and, except as provided under PURA §§ 39.252(b) and 39.262(k), as implemented by P.U.C. SUBST. R. 25.345, from retail customers that switch to new on-site generation, and such retail customers are required to pay such transition charges. The Commission will ensure that such obligations are undertaken and performed by Applicant,/ any other entity providing electric transmission or distribution services within Applicant's certificated service area as of May 1, 1999, and any REP providing services to any retail customer within Applicant's certificated service area.

11. True-ups. True-ups of the transition charges shall be undertaken and conducted as described in Findings of Fact Nos. 91 through 101 of this Financing Order. The servicer shall file the true-up adjustment in a compliance docket and shall give notice of the filing to all parties in this Docket No. 21527.

12. Ownership Notification. Any entity that bills transition charges to customers shall, at least annually, provide written notification to each retail customer for which the entity bills transition charges that the transition charges are the property of the SPE and not of the entity issuing such bill.

B. Transition Bonds

13. Issuance. The SPE is authorized to issue transition bonds as specified in this Financing Order. The aggregate amount of other qualified costs described in Appendix C that may be recovered directly through the transition charges shall be limited to the amount detailed in Appendix C.

14. Refinancing. Applicant or any assignee may apply for one or more new financing orders pursuant to PURA § 39.303(g).

15. Collateral. All transition property and other collateral shall be held and administered by the indenture trustee pursuant to the indenture as described in the Company's application. The SPE shall establish a collection account with the indenture trustee as described in the application as modified in Findings of Fact Nos. 64 through 71. Upon the maturity of the transition bonds and the discharge of all obligations in respect thereof, all amounts, other than amounts in the capital subaccount, in the collection account, including investment earnings, shall be released to the SPE and shall be credited to ratepayers. Applicant shall within 30 days after the date that these funds are eligible to be released notify the Commission of the amount of such funds ' available for crediting to the benefit of ratepayers.

16. Funding of Capital Subaccount. The capital contribution by Applicant to the SPE to be deposited into the Capital Subaccount shall, with respect to each series of transition bonds, be funded by Applicant and not from the proceeds of the sale of transition bonds. Upon the maturity of the transition bonds and the discharge of all obligations in respect thereof, all amounts in the Capital Subaccount, including investment earnings, shall be released to the SPE for payment to Applicant. Investment earnings in this subaccount may be released earlier in accordance with the *indenture.*

17. Credit Enhancement. Applicant may provide for various forms of credit enhancement including letters of credit, reserve accounts, surety bonds, swap arrangements, hedging arrangements and other mechanisms designed to promote the credit quality and marketability of the transition bonds or to mitigate the risk of an increase in interest rates, provided that the costs of such credit enhancement shall not cause the aggregate amount of up-front costs securitized plus the expense of reacquiring debt and equity to exceed the amount of the cap specified in Appendix C, and that the decision to use such credit enhancement shall be made in conjunction with the Commission acting through its designated personnel or financial advisor. This Ordering Paragraph does not apply to the collection account or its subaccounts approved in this Financing Order.

18. Annual Weighted Average Interest Rate of Bonds. The effective annual weighted-average interest rate of the transition bonds, excluding up-front and ongoing costs, shall not exceed 8.75% on an annual basis.

19. Life of Bonds. The life of the transition bonds authorized by this Financing Order shall not exceed 15 years.

20. Amortization Schedule. The amortization of the transition bonds shall be based upon a levelized recovery structure consistent with Finding of Fact No. 63.

21. Commission Participation in Bond Issuance. The Commission, acting through its designated personnel or financial advisor, shall participate directly with Applicant in negotiations regarding the pricing and structuring of the transition bonds, and shall have equal rights with Applicant to approve or disapprove the proposed pricing, marketing, and structuring of the transition bonds. The Commission's financial advisor shall have the right to participate fully and in advance regarding all aspects of the pricing, marketing and structuring of the transition bonds (and all parties shall be notified of the financial advisor's role) and shall be provided timely information that is necessary to fulfill its obligation to the Commission. The Commission directs its financial advisor to veto any proposal that does not comply with all of the criteria established in this Financing Order. The Commission's financial advisor shall ensure that the structuring and pricing of the transition bonds result in the lowest transition-bond charges consistent with market conditions and the terms of this Financing Order and that it protects the competitiveness of the retail electric market in this state. The Commission's financial advisor shall give effect to the Commission's directive that the caps in this Order related to costs and maximum interest rates are ceilings, not floors, and shall inform the Commission of any items that, in the financial advisor's opinion, are not reasonable. The financial advisor shall notify the Applicant and the Commission no later than 12:00 noon CST on the second business day after the pricing date for each series of transition bonds whether the pricing and structuring of that series of transition bonds complies with the criteria established in this Financing Order.

22. Use of SPE. Applicant shall use a special purpose entity (SPE) as proposed in its application in conjunction with the issuance of any transition bonds authorized under this Financing Order. The SPE shall be funded with an amount of capital that is sufficient for the SPE to carry out its intended functions and to minimize to the greatest extent the possibility that Applicant would have to extend funds to the SPE in a manner that could jeopardize the bankruptcy remoteness of the SPE.

C. Servicing

23. Servicing Agreement. The Commission authorizes Applicant to enter into the servicing agreement with the SPE and to perform the servicing duties approved in this Financing Order. i Without limiting the foregoing, in its capacity as initial servicer of the transition property, Applicant is authorized to calculate, bill and collect for the account of the SPE, the transition charges initially authorized in this Financing Order, as adjusted from time to time to meet the Periodic Payment Requirement as provided in this Financing Order; and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the periodic true-ups described in this Financing Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the servicing agreement, provided that, as set forth in Appendix C to this Financing Order, (i) the annual servicing fee payable to Applicant while it is serving as servicer (or to any other servicer affiliated with Applicant) shall not at any time exceed $650,000, and (ii) the annual servicing fee payable to any other servicer not affiliated with Applicant shall not at any time exceed 0.60% of the original principal amount of the transition bonds.

24. Replacement of Applicant as Servicer. In the event of a default by Applicant in any of its servicing functions with respect to the transition charges, the financing parties may replace Applicant as servicer in accordance with the terms of the servicing agreement. No entity may replace Applicant as the servicer in any of its servicing functions with respect to the transition charges and the transition property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the transition bonds to be suspended, withdrawn, or downgraded.

25. Collection Terms. The servicer shall remit collections of the transition charges to the SPE or the indenture trustee for the SPE' s account in accordance with the terms of the servicing agreement.

26. Contract to Provide Service. To the extent that any interest in the transition property created by this Financing Order is assigned, sold or transferred to an assignee,[37] Applicant shall enter into a contract with that assignee that requires Applicant to continue to operate its transmission system or distribution system or both in order to provide electric services to Applicant's customers.

D. **Retail Electric Providers**

27. REP Billing and Credit Standards. The Commission approves the REP standards detailed in Findings of Fact Nos. 57 and 58. These proposed REP standards are the most stringent that can be imposed on REPs by the servicer under this Financing Order and relate only to the billing and collection of transition charges authorized under this Financing Order, and do not apply to collection of any other nonbypassable charges or other charges. The standards apply to all REPs other than REPs that have contracted with the transmission and distribution company to bill and collect transition charges from retail customers. REPs may contract with parties other than the transmission and distribution company to bill and collect transition charges from retail customers, but such REPs shall remain subject to these standards. Upon adoption of any amendment to the current rule addressing any of these REP standards, Staff shall initiate a proceeding to investigate the need to modify the standards adopted in this Financing Order to conform to that rule and to address whether each of the rating agencies that have rated the transition bonds will determine that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds. Modifications to the REP standards adopted in this Financing Order may not be implemented absent prior written confirmation from each of the rating agencies that have rated the transition bonds that such modifications will not cause a suspension, withdrawal, or downgrade of the ratings on the transition bonds. The servicer of the

[37] PURA § 39.302(1) defines an assignee as any individual, corporation, or other legally recognized entity to which an interest in transition property is transferred, other than as security, including any assignee of that party.

transition bonds shall also comply with the provisions of the REP standards adopted by this Financing Order that are applicable to the servicer.

28. Transition Charge Remittance Procedures. Transition charges shall be billed and collected in accordance with the REP standards adopted by this Financing Order. REPs shall be subject to penalties as provided in these standards. A REP shall not be obligated to pay the overdue transition charges of another REP whose customers it agrees to serve.

29. Remedies Upon REP Default. A servicer of transition bonds shall have the remedies provided in the REP standards adopted by this Financing Order. If a REP that is in default fails to immediately select and implement one of ,the options provided in the REP standards or, after ' making its selection, fails to adequately meet its responsibilities under the selected option, then the servicer shall immediately cause the provider of last resort or a qualified REP to assume the responsibility for the billing and collection of transition charges in the manner and for the time provided in the REP standards.

30. Billing by Providers of Last Resort. Every provider of last resort appointed by the Commission shall comply with the minimum credit rating or deposit/credit support requirements described in the REP standards in addition to any other standard that may be adopted by the Commission. If the provider of last resort defaults or is not eligible to provide billing and collection services, the servicer shall immediately assume responsibility for billing and collection of transition charges and continue to meet this obligation until a new provider of last resort can be named by the Commission or the customer requests the services of a REP in good standing. Retail customers may never be directly re-billed by the successor REP, the provider of last resort, or the servicer for any amount of transition charges the customers have paid their REP.

31. Disputes. Disputes between a REP and a servicer regarding any amount of billed transition charges shall be resolved in the manner provided by the REP standards adopted by this Financing Order.

32. Metering Data. If the servicer is providing metering "services to a REP's retail customers, then metering data shall be provided to the REP at the same time as the billing. If the servicer is not providing the metering, the entity providing metering services shall comply with Commission rules and ensure that the servicer and the REP receive timely and accurate metering data in order for the servicer to meet its obligations under the servicing agreement and this Financing Order.

33. Charge-Off Allowance. The REP may retain an allowance for charge-offs from its payments to the servicer as provided in the REP standards adopted by this Financing Order.

34. Service Termination. In the event that the servicer is billing customers for transition charges, the servicer shall have the right to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules. In the event that a REP or the provider of last resort is billing customers for transition charges, the REP shall have the right to transfer the customer to the provider of last resort or to another certified REP, or to direct the servicer to terminate transmission and distribution service to the end-use customer for non-payment by the end-use customer pursuant to applicable Commission rules.

E. Structure of the Securitization

35. Structure. Applicant shall structure this securitization as proposed in the Company's application as modified by this Financing Order. This structure shall be consistent with Findings of Fact Nos. 104 through 107.

F. Use of Proceeds

36. Use of Proceeds. Upon the issuance of transition bonds, the SPE shall pay the net proceeds from the sale of the transition bonds (after payment of transaction costs) to Applicant for the purchase price of the transition property. The net proceeds from the sale of the transition bonds (after payment of transaction costs) shall be applied to a refinancing or retirement of Applicant's debt or equity, or both, with a goal of maintaining a balanced capital structure and at

least an investment grade rating, excluding consideration of the transition bonds, as described in the Company's application.

G. Miscellaneous Provisions

37. Annual Report and Stranded Costs. Following issuance of transition bonds, Applicant shall remove from the annual report and from excess-cost-over-market calculations the regulatory assets securitized under this Financing Order, associated ADIT, and associated cost of service items, as described in Finding of Fact Nos. 112 and 114 through 117. The regulatory liabilities, including investment tax credits, not addressed in this Financing Order were addressed in the Applicant's ECOM proceeding.

38. Continuing Issuance Right. Applicant has the continuing irrevocable right to cause the issuance of transition bonds in one or more series in accordance with this Financing Order for a period of five years following the date on which this Financing Order becomes final and no longer appealable.

39. Internal Revenue Service Private Letter or Other Rulings. Upon receipt, Applicant shall promptly deliver to the Commission a copy of each private letter or other ruling issued by the Internal Revenue Service with respect to the proposed transaction, the transition bonds or any other matter related thereto. Applicant shall also include a copy of every such ruling by the IRS that it has received, as an attachment to each issuance advice letter required to be filed by this Financing Order. Applicant shall not cause transition bonds to be issued absent receipt of a private letter ruling as described in the Application.

40. Binding on Successors. This Financing Order, together with the transition charges authorized in it, shall be binding upon Applicant and any successor to TXU Electric Company that provides transmission or distribution service directly to retail customers in TXU Electric Company's existing certificated service area as of May 1, 1999, and any other entity that provides transmission or distribution services to retail customers within that service area. This Financing Order is also binding upon each REP, and any successor, that sells electric energy to retail customers located within that service area, any other entity responsible for billing and

collecting transition charges on behalf of the SPE, and any successor to the Commission. In this paragraph, a "successor" means any entity that succeeds by any means whatsoever to any interest or obligation of its predecessor, including by way of bankruptcy, reorganization or other insolvency proceeding, merger, assignment, pledge or other security, by operation of law, or otherwise.

41. Flexibility. Subject to compliance with the requirements of this Financing Order, Applicant and the SPE shall be afforded flexibility in establishing the terms and conditions of the transition bonds, including the final structure of the SPE as a Delaware business trust or Delaware limited liability company, repayment schedules, term, payment dates, collateral, credit enhancement, required debt service, reserves, interest rates, indices and other financing costs and the ability of Applicant, at its option, to issue one or more series of transition bonds.

42. Effectiveness of Order. Subject to the terms of this Financing Order, it becomes effective upon issuance and is not subject to rehearing by the Commission. Notwithstanding the foregoing, no transition property shall be created hereunder, and Applicant shall not be authorized to impose, collect, and receive transition charges, until concurrently with the transfer of Applicant's rights hereunder to the SPE in conjunction with the issuance of the transition bonds.

43. Regulatory Approvals. All regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of the transition charges associated with the regulatory assets and other qualified costs that are the subject of the Application, and all related transactions contemplated in the Application, are granted.

44. Payment of Commission's Costs for Professional Services. In accordance with PURA 39.302(4), Applicant shall pay the costs to the Commission of acquiring professional services for the purpose of evaluating Applicant's proposed transaction, including, but not limited to, the Commission's outside attorneys fees in the amounts specified in this Financing Order no later than 30 days after the issuance of any transition bonds.

45. Payment of Commission's Financial Advisor. The fee for the Commission's financial advisor shall be a fixed fee payable at closing by wire transfer, and shall not exceed $2,450,000 ($942,308 in connection with transition bonds issued before 2004) to be included in the aggregate cap on up-front costs to be securitized of $52,586,374.

46. Effect. This Financing Order constitutes a legal financing order for TXU Electric Company under Subchapter G of Chapter 39 of PURA. The Commission finds this Financing Order complies with the provisions of Subchapter G of Chapter 39 of PURA. A financing order gives rise to rights, interests, obligations and duties as expressed in Subchapter G of Chapter 39 of PURA. It is the Commission's express intent to give rise to those rights, interests, obligations and duties by issuing this Financing Order. /Applicant and the servicer of transition bonds are directed to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to the compliance with the criteria established in this Financing Order.

46A. This Financing Order, while adopted pursuant to the approval and adoption of the Stipulation filed in this proceeding, is a separate final order, the appeal of which is to be conducted pursuant to PURA § 39.303(f). The finality of this Financing Order is not impacted by the actions or inactions taken by the Commission with respect to other portions of the Stipulation considered in this proceeding. Should any other order entered in this proceeding, if appealed to the courts, not be upheld in full on appeal, such judicial ruling will in no event impact or modify the finality or effectiveness of this Financing Order

47. All Other Motions Denied. All motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief not expressly granted herein, are denied for want of merit.

SIGNED AT AUSTIN, TEXAS the 5th day of August 2002.

PUBLIC UTILITY COMMISSION OF TEXAS

REBECCA KLEIN, KLEIN, CHAIRMAN

BRETT A. PE MAN, COMMISSIONER

Klein Exhibit 2
DOCKET NO. E-2, Sub 1262
DOCKET NO. E-7, Sub 1243 Highlight by Witness

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval to include in base rates the revenue requirement for the CR3 regulatory asset, by Duke Energy Florida, Inc.	DOCKET NO. 150148-EI
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 ORDER NO. PSC-15-0537-FOF-EI ISSUED: November 19, 2015

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
JULIE I. BROWN
JIMMY PATRONIS

FINANCING ORDER

APPEARANCES:

DIANNE M. TRIPLETT, and JOHN T. BURNETT, ESQUIRES, 299 First Avenue North, St. Petersburg, FL, 33701, and MATTHEW BERNIER, ESQUIRE, 106 East College Avenue, Suite 800, Tallahassee, FL 32301-7740 On behalf of Duke Energy Florida, LLC (DEF).

J.R. KELLY and CHARLES REHWINKEL, ESQUIRES, c/o The Florida Legislature, 111 W. Madison Street, Room 812, Tallahassee, FL 32399-1400
On behalf of Office of Public Counsel (OPC).

JON C. MOYLE, JR. and KAREN A. PUTNAL, ESQUIRES, c/o Moyle Law Firm, P.A. 118 North Gadsden Street, Tallahassee, FL 32301
On behalf of Florida Industrial Power Users Group (FIPUG).

JAMES W. BREW, OWEN J. KOPON, and LAURA A. WYNN, ESQUIRES, Stone Mattheis Xenopoulos & Brew, PC, West Tower, 1025 Thomas Jefferson Street, NW, Washington, D.C. 20007-0800
On behalf of White Springs Agricultural Chemicals, Inc. d/b/a PCS Phosphate – White Springs (PCS Phosphate).

Highlight by Witness

ROBERT SCHEFFEL WRIGHT and JOHN T. LAVIA, III, ESQUIRES, Gardner, Bist, Bowden, Bush, Dee, LaVia & Wright, P.A., 1300 Thomaswood Drive, Tallahassee, FL 32308
On behalf of Florida Retail Federation (FRF).

ROSANNE GERVASI, LEE ENG TAN, KEINO YOUNG, KELLEY CORBARI and LESLIE AMES, ESQUIRES, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (Staff).

MARY ANNE HELTON, ESQUIRE, Deputy General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
Advisor to the Florida Public Service Commission.

CHARLIE BECK, ESQUIRE, General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
Florida Public Service Commission General Counsel.

BY THE COMMISSION:

I. INTRODUCTION

On July 27, 2015, Duke Energy Florida, LLC ("DEF" or "the Company") filed a petition for issuance of a nuclear asset-recovery bond financing order ("Petition"). This Commission has jurisdiction pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, 366.06, and 366.95, F.S.

History

In its 2015 session, the Florida Legislature established a mechanism by which electric utilities can recover their nuclear asset-recovery costs. This mechanism, referred to herein as "securitization," allows electric utilities to access lower-cost funds through "nuclear asset-recovery bonds" issued pursuant to financing orders issued by this Commission. This provision of Florida law is codified in Section 366.95, F.S.

By Order No. PSC-13-1598-FOF-EI,[1] this Commission approved a comprehensive settlement (the Revised and Restated Settlement and Stipulation Agreement or "RRSSA") that resolved many issues, including the treatment and retirement of DEF's nuclear unit, Crystal River 3 ("CR3"). The RRSSA contains provisions by which DEF is authorized to increase its base rates by the revenue requirement for the CR3 Regulatory Asset, which is a defined term in the RRSSA.

[1] Issued November 12, 2013, in Docket No. 130208-EI, as amended by Order No. PSC-13-0598A-FOF-EI, issued November 13, 2013, In re: Petition for limited proceeding to approve revised and restated stipulation and settlement agreement by Duke Energy Florida, Inc. d/b/a Duke Energy.

Highlight by Witness

By Order No. PSC-15-0465-S-EI, issued October 14, 2015, in this consolidated docket, this Commission approved an amendment to the RRSSA (the "Amended RRSSA") to clarify the appropriate recovery period for the CR3 Regulatory Asset if nuclear asset-recovery bonds are issued pursuant to Section 366.95, F.S., and to clarify the appropriate scheduled final maturity date and legal final maturity date for the last maturing tranche of such nuclear asset-recovery bonds.[2]

The amount of the CR3 Regulatory Asset to be securitized does not include (1) capital costs of dry cask storage facilities at CR3; (2) additional funds needed to fund the CR3 Nuclear Decommissioning Trust in support of decommissioning CR3; or (3) costs which result from a new requirement adopted after October 14, 2015, by the United States Nuclear Regulatory Commission, Federal Energy Commission, or North American Electric Reliability Corporation that are applicable industry wide or generally applicable to shut down nuclear plants or any other Force Majeure event.

Summary of DEF's Petition

By its Petition, DEF requests that we issue a financing order under Section 366.95, F.S.: (1) to securitize the Securitizable Balance, defined below, (2) for approval of the proposed securitization financing structure, (3) for approval to issue the nuclear asset-recovery bonds, secured by the pledge of the nuclear asset-recovery property, in one or more series in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the nuclear asset-recovery bonds are issued), (4) for approval of the financing costs, including upfront bond issuance costs incurred in connection with the issuance of the nuclear asset-recovery bonds and ongoing financing costs, (5) for approval of the creation of the nuclear asset-recovery property, including the right to impose, bill, collect and receive nonbypassable nuclear asset-recovery charges sufficient to recover the principal of, and interest on, the nuclear asset-recovery bonds plus ongoing financing costs, and (6) for approval of the tariff to implement the nuclear asset-recovery charges.

To repay the nuclear asset-recovery bonds and associated financing costs, consistent with the Amended RRSSA, DEF proposes that a nuclear asset-recovery charge be collected on a per kWh basis from all customer rate classes over a repayment period not to exceed the close of the last billing cycle for the 276th month from the inception of the nuclear asset-recovery charge. The nuclear asset-recovery charge will provide for repayment of the nuclear asset-recovery bonds (including principal, which includes upfront bond issuance costs) and ongoing financing costs (including without limitation; interest, rating agency surveillance fees, servicing fees, administration fees, legal and auditing fees, regulatory assessment fees, trustee fees, independent manager(s) fees and the return on invested capital (sometimes referred to as "ongoing financing costs" as further described herein)).

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[2] Tranches of nuclear asset-recovery bonds may be offered to investors as separate "series" of bonds. This should not be confused with the authority granted pursuant to this Financing Order to offer, sell, and issue the approved nuclear asset-recovery bonds "in one or more series" on different dates, possibly pursuant to different offering documents.

Highlight by Witness

Standard for Review of Petition

As noted above, the Florida Legislature enacted 2015 House Bill 7109, which has been codified in relevant part as Section 366.95, F.S. This section allows electric utilities, with the approval of this Commission, to finance the costs associated with the premature retirement of a nuclear power plant with the proceeds of nuclear asset-recovery bonds that are secured by the nuclear asset-recovery property.

Nuclear asset-recovery bonds are defined, pursuant to Section 366.95(1)(i), F.S., as bonds or other evidences of indebtedness or ownership that are issued by an electric utility or an assignee pursuant to a financing order, the proceeds of which are used directly or indirectly to recover, finance, or refinance Commission-approved nuclear asset-recovery costs and financing costs, and that are secured by or payable from nuclear asset-recovery property. Electric customers must pay the principal, interest, and related ongoing financing costs of the nuclear asset-recovery bonds through nuclear asset-recovery charges, which, pursuant to Section 366.95(1)(j), F.S., are nonbypassable charges that shall be paid by all existing or future customers receiving transmission or distribution service from the electric utility or its successors or assignees under Commission-approved rate schedules or special contracts, even if the customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in Florida.

Section 366.95(2)(a), F.S., authorizes electric utilities to petition this Commission for nuclear asset-recovery bond financing orders and provides that for each petition the electric utility shall: (1) describe the nuclear asset-recovery costs; (2) indicate whether the electric utility proposes to finance all or a portion of the nuclear asset-recovery costs using nuclear asset-recovery bonds; (3) estimate the financing costs related to the nuclear asset-recovery bonds; (4) estimate the nuclear asset-recovery charges necessary for recovery of such costs; (5) estimate any projected cost savings, based on current market conditions, or demonstrate how the issuance of nuclear asset-recovery bonds and the imposition of nuclear asset-recovery charges would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs from customers; (6) demonstrate that securitization has a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts compared to the traditional method of cost recovery; and (7) file direct testimony supporting the petition.

If an electric utility is subject to a settlement agreement that governs the type and amount of principal costs that could be recovered as nuclear asset-recovery costs, Section 366.95(2)(b), F.S., provides that the electric utility must file a petition with this Commission for review and approval of those principal costs no later than 60 days before filing a petition for a financing order. This Commission may not authorize any such costs to be included or excluded, as applicable, as nuclear asset-recovery costs if such inclusion or exclusion, as applicable, of those costs would otherwise be precluded by such electric utility's settlement agreement.

Section 366.95(2)(c)1.b., F.S., provides the standard of review applicable to a petition for issuance of a financing order:

> The commission shall issue a financing order authorizing the financing of reasonable and prudent nuclear asset-recovery costs and financing costs if the commission finds that the issuance of the nuclear asset-recovery bonds and the imposition of nuclear asset-recovery charges authorized by the financing order have a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs. Any determination of whether nuclear asset-recovery costs are reasonable and prudent shall be made with reference to the general public interest and in accordance with paragraph (b) **[**of Section 366.95(2), F.S.**]**, if applicable.

Content of Financing Order

In any financing order issued to an electric utility, Section 366.95(2)(c)2., F.S., provides that this Commission shall:

a. specify the amount of nuclear asset-recovery costs to be financed using nuclear asset-recovery bonds, describe and estimate the amount of financing costs which may be recovered through nuclear asset-recovery charges and specify the period over which such costs may be recovered;

b. determine if the proposed structuring, expected pricing, and financing costs have a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs; including detailed findings of fact addressing cost-effectiveness and associated rate impacts upon retail customers and retail customer classes;

c. require that nuclear asset-recovery charges be nonbypassable;

d. include a formula-based true-up mechanism for making expeditious periodic adjustments in the nuclear asset-recovery charges that are necessary (i) to correct for any overcollection or undercollection of nuclear asset-recovery charges, or (ii) to otherwise ensure the timely payment of nuclear asset-recovery bonds, financing costs, and other required amounts and charges payable in connection with the nuclear asset-recovery bonds;

e. specify the nuclear asset-recovery property that shall be used to pay or secure nuclear asset-recovery bonds and all financing costs;

f. specify the degree of flexibility to be afforded to the electric utility in establishing the terms and conditions of the nuclear asset-recovery bonds;

g. require nuclear asset-recovery charges to be allocated to customer classes in specified ways;

Highlight by Witness

h. require that the electric utility's determination of the initial nuclear asset-recovery charge be final and effective upon issuance of nuclear asset-recovery bonds, without further action by this Commission, so long as the nuclear asset-recovery charge is consistent with the financing order; and

i. include any other conditions that this Commission considers appropriate and that are authorized by this section.

Case Background

On May 22, 2015, pursuant to Sections 366.04 and 366.05, F.S., and consistent with the RRSSA, DEF filed its Petition for Approval to Include in Base Rates the Revenue Requirement for the Crystal River Unit 3 Regulatory Asset (CR3 Regulatory Asset Petition), along with supporting testimony and exhibits. Docket No. 150148-EI was opened to address the CR3 Regulatory Asset Petition.

By Order No. PSC-15-0238-PCO-EI (Order Establishing Procedure), issued June 5, 2015, Docket No. 150148-EI was scheduled for a formal evidentiary hearing on October 14-16, 2015, and procedures and controlling dates were established.

This Commission granted intervention to OPC by ORDER No. PSC-15-0243-PCO-EI, issued June 10, 2015; to PCS Phosphate by Order No. PSC-15-0254-PCO-EI, issued June 25, 2015; to FIPUG by Order No. PSC-15-0255-PCO-EI, issued June 25, 2015; and to FRF by Order No. PSC-15-0395-PCO-EI, issued September 16, 2015.

On July 27, 2015, pursuant to Section 366.95, F.S., DEF filed its Petition for Financing Order, along with supporting testimony and exhibits for witnesses Bryan Buckler, Patrick Collins, Marcia Olivier, and Michael Covington, and a Motion to Consolidate the dockets. Docket No. 150171-EI was opened to address the Petition.

By Order No. PSC-15-0327-PCO-EI, issued August 13, 2015, the Commission consolidated Docket Nos. 150148-EI and 150171-EI. By Order No. PSC-15-0340-PCO-EI, issued August 21, 2015, certain of the controlling dates governing the proceedings were revised.

On September 9, 2015, Commission staff submitted direct testimony and exhibits for witnesses Paul Sutherland, Rebecca Klein, Brian A. Maher and Hyman Schoenblum with respect to the Financing Order issues. Witnesses Bryan Buckler and Patrick Collins submitted rebuttal testimony and exhibits on September 14, 2015.

On September 15, 2015, this Commission approved DEF's Motion for Approval of a Stipulation regarding the CR3 Regulatory Asset-related issues and an amendment to the RRSSA to clarify the appropriate recovery period if the nuclear asset-recovery bonds are issued pursuant to Section 366.95, F.S.

This Commission held a Prehearing Conference on October 1, 2015.

Highlight by Witness

On October 14, 2015, this Commission held a hearing in Docket Nos. 150148-EI and 150171-EI. All testimony filed in both dockets was entered into the record as though read, along with the prefiled exhibits of all witnesses, and cross-examination was waived by all parties and staff. A total of 89 exhibits were entered into the record, including DEF's responses to certain of the Commission staff's discovery requests.

The hearing considered (a) whether this Commission should issue a financing order pursuant to DEF's Petition, and if so, (b) what standards, conditions and procedures should be included in that financing order. In connection with that hearing, the parties presented Proposed Stipulations on Financing Order Issues. We approved the Proposed Stipulations on Financing Order Issues upon finding them to be in the public interest, and admitted them as Exhibit 87.

During the hearing, the Commission, staff, and the parties discussed and acknowledged the Best Practices provided in testimony by Saber Partners, including the participation of the Commission's financial advisor in the structuring, marketing, and pricing of the bonds and the selection and compensation of the underwriters. In addition, all parties agreed that this Financing Order would direct that nuclear asset-recovery bonds shall be structured, marketed and priced so as to result in the lowest nuclear asset-recovery charges consistent with this Financing Order and market conditions at the time of pricing. Also at the hearing, the parties agreed that Commission staff would prepare a proposed form of Financing Order consistent with the Proposed Stipulations on Financing Order Issues for review by the other parties and for consideration by this Commission at its special agenda conference on November 17, 2015.

Summary of Decision

Consistent with the time requirements of Section 366.95(2)(c)1., F.S., we reached a decision on DEF's Petition. This Financing Order memorializes our decision.

In this Financing Order, we find that the issuance of nuclear asset-recovery bonds and the imposition of related nuclear asset-recovery charges to finance the recovery of DEF's reasonable and prudently incurred nuclear asset-recovery costs and related financing costs have a significant likelihood of resulting in lower overall costs or would significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs. Thus, by this Financing Order, we:

(1) approve the recovery through securitization of the Securitizable Balance, which consists of (a) nuclear asset-recovery costs, in the form of the Crystal River Unit 3 ("CR3") Regulatory Asset as determined pursuant to Docket No. 150148-EI (more specifically, the principal amount should be $1,283,012,000, representing the projected December 31, 2015 balance of the CR3 Regulatory Asset, subject to true-up to the actual December 31, 2015 balance), plus (b) estimated financing costs associated with the issuance of the nuclear asset-recovery bonds (sometimes referred to as "upfront bond issuance costs"), plus (c) carrying charges accruing at 6.0% per annum on the CR3 Regulatory Asset balance from December 31, 2015 through the date of issuance of the respective series of nuclear asset-recovery bonds.

Highlight by Witness

(2) authorize the issuance of nuclear asset-recovery bonds, secured by the pledge of nuclear asset-recovery property, in one or more series, in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the nuclear asset-recovery bonds are issued);

(3) approve the recovery of financing costs, including, upfront bond issuance costs incurred in connection with the issuance of the nuclear asset-recovery bonds and ongoing financing costs;

(4) approve the transaction structure of nuclear asset-recovery bonds as described in this Financing Order;

(5) approve the creation of the nuclear asset-recovery property, which includes the right to impose, bill, collect and receive nuclear asset-recovery charges in an amount authorized under this Financing Order and to obtain periodic adjustments to such charges as provided in this Financing Order and in accordance with Finding of Fact paragraph 29 and Conclusion of Law paragraph 11, to Guarantee the timely payment of the nuclear asset-recovery bonds and financing costs and other required amounts and charges payable in connection with the nuclear asset-recovery bonds; and

(6) approve the form of tariff schedule to be filed under DEF's tariff, as provided in this Financing Order, to implement the nuclear asset-recovery charges.

Pursuant to the Issuance Advice Letter procedures described in Finding of Fact paragraphs 98 through 103 of this Financing Order, DEF shall update its estimates of the upfront financing costs, ongoing financing costs and other relevant current information in accordance with the terms of this Financing Order.

Apart from storm-recovery bonds which this Commission approved for Florida Power & Light Company pursuant to Section 366.8260, F.S., and Order Nos. PSC-06-0464-FOF-EI and PSC-06-0626-FOF-EI, issued May 30, 2006 and July 21, 2006, respectively, in Docket No. 060038-EI, these nuclear asset-recovery bonds will be unlike any other corporate debt or equity securities previously approved by this Commission. In all other debt and equity offerings, the issuing utility is directly responsible to make payments to investors who purchase the securities. But neither the assets nor the revenues of DEF will be available to make promised payments of principal, interest, and other costs associated with the proposed nuclear asset-recovery bonds. Rather, by operation of Section 366.95, F.S., this Commission must irrevocably commit that all such amounts will be paid from nuclear asset-recovery charges, a special tariff rate imposed on all retail consumers of electricity in DEF's service territory. This represents an extraordinary relinquishment of future regulatory authority and a shifting of all economic burdens in connection with nuclear asset-recovery bonds from DEF to its customers.

While we recognize the need for some degree of flexibility with regard to the final details of the nuclear asset-recovery bond securitization transaction approved in this Financing Order, our primary focus is upon (a) meeting all statutory requirements including (i) pursuant to Section 366.95(2)(c)2.b., our determination that the proposed structuring, expected pricing, and financing costs of the nuclear asset-recovery bonds have a significant likelihood of resulting in lower

overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs (the "statutory financing cost objective"), (ii) our determination that this Financing Order addresses all matters required by Section 366.95(2)(c)2., and, (iii) pursuant to Section 366.95(2)(c)5., our determination, on a reasonably comparable basis, that the actual costs of the nuclear asset-recovery bond issuance results in the lowest overall costs that were reasonably consistent with market conditions at the time of the issuance and the terms of this Financing Order (the "lowest issuance cost objective", and collectively with the statutory financing cost objective, the "statutory cost objectives"); and (b) ensuring that nuclear asset-recovery bonds authorized by this Financing Order will be structured, marketed and priced so as to result in the lowest nuclear asset-recovery charges consistent with this Financing Order and market conditions at the time of pricing (the "lowest overall cost standard").

Because this Financing Order will be irrevocable, and because the true-up adjustment mechanism generally will result in the economic burden of all costs associated with nuclear asset-recovery bonds being borne by DEF's customers, we feel compelled to ensure from the outset that clear standards and effective procedures and conditions are in place to safeguard the interests of customers. Otherwise all the benefits potentially available to customers from this securitized nuclear asset-recovery bond financing might not be realized.

Section 366.95(2)(c)2.i., F.S., directs this Commission to include in a financing order any other conditions that this Commission considers appropriate and that are authorized by this section. In this Financing Order, we establish standards, procedures and conditions which we find will effectively safeguard the interests of customers. Among those is the lowest overall cost standard. We find that these standards, procedures and conditions, applied in a manner supportive of the provisions of the previously approved Amended RRSSA, are most likely to ensure satisfaction of the statutory cost objectives. These standards, procedures and conditions are designed to allow for meaningful and substantive cooperation between DEF and its designated advisors, this Commission and our designated advisors, legal counsel, and representatives through a "Bond Team" to ensure that the structuring, marketing, pricing and financing costs of the nuclear asset-recovery bonds will achieve the statutory cost objectives as well as the lowest overall cost standard. Each of the standards, procedures and conditions set forth in this Financing Order must be met. This Financing Order grants authority to issue nuclear asset-recovery bonds and to impose and collect nuclear asset-recovery charges only if the final structure of the transaction and the standards, procedures and conditions followed comply with or satisfy (as the case may be) in all respects the standards, procedures and conditions set forth herein.

DEF, its structuring advisor, and designated Commission staff and its financial advisor will serve on the Bond Team. One designated representative of DEF and one designated representative of this Commission shall be joint decision makers in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds except for those recommendations that in the sole view of DEF would expose DEF or the special purpose entity ("SPE") to securities law and other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or

necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriter agreement(s)). This Commission's designated staff and financial advisor will be visibly involved, in advance, in all aspects of the structuring, marketing, and pricing of the nuclear asset-recovery bonds. All Bond Team members will actively participate in the design of the marketing materials for the transactions as well as in the development and implementation of the marketing and sales plan for the bonds. DEF agrees DEF and this Commission's staff and its financial advisor as Bond Team members, excluding DEF's structuring advisor, should also have equal rights on the hiring decisions for the underwriters and counsel to the underwriters. However, DEF shall have sole right to select and engage all counsel for DEF and the SPE. In addition, together with the Bond Team's involvement in the structuring, marketing and pricing of the nuclear asset-recovery bonds, and the Issuance Advice Letter process, this Commission will be able to fully review the pricing of the bonds as this Commission determines whether to issue a stop order no later than 5:00 pm Eastern time on the third business day following pricing.

To ensure that the statutory cost objectives and the lowest overall cost standard are met and that these procedures are followed, this Commission – as represented at various stages either jointly or separately by designated Commission personnel, with support from this Commission's financial advisor and this Commission's outside legal counsel, as the designated Commission personnel deem appropriate – will participate visibly and in advance in the structuring, marketing, and pricing of the nuclear asset-recovery bonds in accordance with the standards, procedures and conditions established in this Financing Order.

The authority and approval to issue nuclear asset-recovery bonds pursuant to this Financing Order is effective only upon DEF filing with this Commission an Issuance Advice Letter in accordance with this Financing Order, and this Commission not issuing an order to stop the transaction and containing a basis for such stop order by 5:00 p.m. Eastern Time on the third business day following pricing of the nuclear asset-recovery bonds.

II. TRANSACTION STRUCTURE AND DOCUMENTS

DEF has proposed a transaction structure that includes all of the following:

a. The use of one or more SPEs as issuer of nuclear asset-recovery bonds, limiting the risks to Bondholders (holders of nuclear asset-recovery bonds) of any adverse impact resulting from a bankruptcy proceeding of DEF or any affiliate.

b. The right to impose, bill, collect and receive nuclear asset-recovery charges that are nonbypassable and which must be trued-up at least every six months, but may be trued-up more frequently under specified circumstances, in order to ensure the timely payment of the debt service and on-going financing costs. Consistent with the Amended RRSSA, the recovery period proposed for the nuclear asset-recovery charges shall not exceed the close of the last billing cycle for the 276th month from the inception of the nuclear asset-recovery charge.

c. Include as collateral a collection account which includes, without limitation, a Capital Subaccount funded initially by a deposit from DEF equal to at least 0.5% of the initial principal amount of the nuclear asset-recovery bonds, resulting in greater certainty of payment of interest and principal to investors.

d. A servicer (initially DEF) responsible for billing and collecting the nuclear asset-recovery charge from existing and future customers.

e. The Federal income tax consequences of the transaction meet the provisions established in IRS Revenue Procedure 2005-62.

Portions of the transaction structure, described in this Financing Order, are necessary to enable the nuclear asset-recovery bonds to obtain the highest bond credit rating possible, with an objective of AAA/Aaa bond credit ratings, so as to further ensure that the proposed structuring, expected pricing and financing costs of the nuclear asset-recovery bonds and the imposition of the nuclear asset-recovery charges will avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs from customers.

In accordance with Section 366.95(2)(a)6., the transaction structure, described in this Financing Order, has a significant likelihood of resulting in lower overall costs or would significantly mitigate rate impacts compared to the traditional method of cost recovery.

DEF has submitted in connection with its Petition a draft of each of the Nuclear Asset-Recovery Property Purchase and Sale Agreement, the Administration Agreement, and the Nuclear Asset-Recovery Property Servicing Agreement (the "Financing Documents"), which set out in substantial detail certain terms and conditions relating to the transaction structure, including the proposed sale of the Nuclear Asset-Recovery Property to the SPE, the administration of the SPE, and the servicing of the nuclear asset-recovery charges and the nuclear asset-recovery bonds. DEF initially requested that we approve the substance of the form of each of the agreements between DEF and the SPE in connection with issuance of this Financing Order. We find that such approval is not necessary at this time. Drafts of these agreements were filed in order that this Commission may evaluate the principal rights and responsibilities of the parties thereto. The final versions of these agreements will be subject to change based on the input from Commission staff, rating agencies, investors and other parties involved in the structuring and marketing of the nuclear asset-recovery bonds. DEF has also submitted a draft of the Indenture between the SPE and the indenture trustee, which sets forth proposed security and terms for the nuclear asset-recovery bonds. DEF requested that we approve the substance of the Indenture, subject to such changes based on the input from Commission staff, rating agencies, investors and other parties involved in the structuring and marketing of the nuclear asset-recovery bonds. DEF has also submitted a form of the Limited Liability Company Agreement ("LLC Agreement") with DEF as the sole member, that DEF proposed would constitute the organizing document of the SPE. DEF initially requested that we approve the substance of the LLC Agreement, which would be executed substantially in the form submitted to this Commission, subject to such changes as DEF deems necessary or advisable to satisfy bankruptcy and rating agency considerations.

The SPE

DEF proposed to create one or more SPEs, each as a bankruptcy remote, Delaware limited liability company with DEF as its sole member, as set forth in the LLC Agreement. In striving to achieve the lowest overall cost standard, it would be helpful if nuclear asset-recovery bonds can be presented to investors as corporate securities and not as asset-backed securities. Exhibit 75 discusses an SEC no-action letter dated September 19, 2007 which treated securitized utility bonds issued by an SPE as not asset-backed securities where that SPE was authorized to issue more than one series of securitized utility bonds. Unless separate SPEs are required by the rating agencies to achieve the highest possible credit ratings, all series of nuclear asset-recovery bonds authorized by this Financing Order shall be issued by the same SPE.

DEF proposed that the SPE may issue nuclear asset-recovery bonds in an aggregate amount not to exceed the Securitizable Balance approved by this Financing Order and will pledge to an indenture trustee, as collateral for payment of the nuclear asset-recovery bonds, the nuclear asset-recovery property, including the SPE's right to receive the nuclear asset-recovery charges as and when collected, and other collateral described in the Indenture. Pursuant to Section 366.95(5)(a)3., the SPE will be created for the limited purpose of acquiring, owning, or administering nuclear asset-recovery property or issuing nuclear asset-recovery bonds under this Financing Order or one or more future financing orders issued by this Commission. These restrictions on the activities of the SPE and restrictions on the ability of DEF to take action on the SPE's behalf are imposed to achieve the objective that the SPE will be bankruptcy-remote and not be affected by a bankruptcy of DEF or any affiliate or successor of DEF.

DEF proposed that the SPE will be managed by a board of managers with rights and duties set forth in its organizational documents. As long as the nuclear asset-recovery bonds remain outstanding, DEF proposed that the SPE will have at least one independent manager with no organizational affiliation with DEF other than possibly acting as independent manager(s) for another bankruptcy-remote subsidiary of DEF or its affiliates. The SPE will not be permitted to amend the provisions of the LLC Agreement or other organizational documents that relate to bankruptcy-remoteness of the SPE without the consent of the independent manager(s). Similarly, the SPE will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge without the consent of the independent manager(s). Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of the SPE as required by the rating agencies.

DEF proposed that the SPE will have no staff to perform administrative services (such as routine corporate maintenance, reporting and accounting functions). DEF proposed that these services initially will be provided by DEF pursuant to the terms of an administration agreement between the SPE and DEF (the "Administration Agreement").

The Servicer and the Servicing Agreement

DEF proposed to execute a servicing agreement with the SPE (the "Servicing Agreement") which may be amended, renewed, or replaced by another servicing agreement in

accordance with its terms. DEF will be the initial servicer but may be succeeded as servicer as detailed in the Servicing Agreement. Pursuant to the Servicing Agreement, the servicer is required, among other things, to impose, bill, collect and receive the nuclear asset-recovery charges for the benefit and account of the SPE, to initiate the periodic true-up adjustments of nuclear asset-recovery charges required or allowed by this Financing Order and to account for and remit its collection of nuclear asset-recovery charges to or for the account of the SPE in accordance with the remittance procedures contained in the Servicing Agreement without any charge, deduction, or surcharge of any kind, other than the servicing fee specified in the Servicing Agreement. Under the Servicing Agreement, if any servicer fails to fully perform its servicing obligations, the indenture trustee or its designee may, and upon the instruction of the requisite percentage of holders of the outstanding nuclear asset-recovery bonds shall, appoint an alternate party to replace the defaulting servicer. The obligations of the servicer under the Servicing Agreement, the circumstances under which an alternate servicer may be appointed, and the conditions precedent for any amendment of such agreement will be more fully specified in the Servicing Agreement. The rights of the SPE under the Servicing Agreement will be included in the collateral pledged to the indenture trustee under the Indenture for the benefit of holders of the nuclear asset-recovery bonds.

Trust Accounts

The payment of the nuclear asset-recovery bonds and related nuclear asset-recovery charges authorized by this Financing Order is to be secured by the nuclear asset-recovery property created by this Financing Order and by certain other collateral as described in this Financing Order. The nuclear asset-recovery bonds will be issued pursuant to the Indenture under which the indenture trustee will administer the trust. DEF proposed that the SPE will establish a Collection Account as a trust account to be held by the indenture trustee as collateral to facilitate the payment of the principal of, interest on, and ongoing financing costs related to the nuclear asset-recovery bonds in full and on a timely basis. The Collection Account will include the General Subaccount, the Capital Subaccount and the Excess Funds Subaccount, and may include other subaccounts if required to obtain AAA/Aaa ratings on the nuclear asset-recovery bonds.

DEF proposed that nuclear asset-recovery charge remittances from the servicer with respect to the nuclear asset-recovery bonds will be deposited into the General Subaccount. On a periodic basis, the money in the General Subaccount will be allocated to pay the nuclear asset-recovery bonds and financing costs and other required amounts and charges payable in connection with the nuclear asset-recovery bonds, including without limitation the funding requirements of the other subaccounts, according to specified payment priority established in the Indenture (the "Periodic Payment Requirement"). Funds in the General Subaccount will be invested by the indenture trustee in short-term, high-quality investments and such funds (including, to the extent necessary, investment earnings) will be applied by the indenture trustee to fund the Periodic Payment Requirement.

When the nuclear asset-recovery bonds are issued, DEF proposes that DEF will make a capital contribution to the SPE, which the SPE will deposit into the Capital Subaccount. Proceeds of nuclear asset-recovery bonds will not be used to fund this capital contribution. The

amount of the capital contribution will be at least 0.5 percent of the original principal amount of the nuclear asset-recovery bonds. The Capital Subaccount will serve as collateral to facilitate timely payment of principal of and interest on the nuclear asset-recovery bonds. To the extent that the Capital Subaccount must be drawn upon to pay these amounts due to a shortfall in the nuclear asset-recovery charge collections, it will be replenished to its original level through the true-up process described below. The funds in the Capital Subaccount will be invested in short-term high-quality investments and, if necessary, such funds (including investment earnings) will be used by the indenture trustee to fund the Periodic Payment Requirement. DEF will be permitted to earn a rate of return on its invested capital in the SPE equal to the rate of interest payable on the longest maturing tranche of nuclear asset-recovery bonds and this return on invested capital should be a component of the Periodic Payment Requirement (as defined above), and accordingly, recovered from nuclear asset-recovery charges.

DEF proposed that the Excess Funds Subaccount will hold any nuclear asset-recovery charge collections and investment earnings on the Collection Account in excess of the amounts needed to fund the Periodic Payment Requirement. Any balance in or amounts allocated to the Excess Funds Subaccount on a true-up adjustment date will be subtracted from amounts required for such period for purposes of the true-up adjustment. The funds in the Excess Funds Subaccount will be invested in short-term high-quality investments, and such funds (including investment earnings thereon) will be available to fund the Periodic Payment Requirement.

DEF proposed that the Collection Account and the subaccounts described above are intended to facilitate the full and timely payment of the Periodic Payment Requirement. If the amount of nuclear asset-recovery charge collections in the General Subaccount is insufficient to fund, on a timely basis, the Periodic Payment Requirement, the Excess Funds Subaccount and the Capital Subaccount will be drawn down, in that order, to make such payments. Any deficiency in the Capital Subaccount due to such withdrawals must be replenished on a periodic basis through the true-up process. In addition to the foregoing, there may be established such additional accounts and subaccounts as are necessary to segregate amounts received from various sources, or to be used for specified purposes consistent with this Financing Order and Section 366.95, F.S.

Upon the maturity of the nuclear asset-recovery bonds and upon the discharge of all obligations with respect to such bonds, amounts remaining in the Collection Account will be released to the SPE and will be available for distribution by the SPE to DEF. As noted in this Financing Order, equivalent amounts, less the amount of the Capital Subaccount, will be credited by DEF to current customers' bills in the same manner that the charges were collected, or through a credit to the capacity cost recovery clause if this Commission determines at the time of retirement that a direct credit to customers' bills is not cost-effective.

Guaranteed True-Ups of the Nuclear Asset-Recovery Charges

Pursuant to Section 366.95(2)(c)2.d. and (2)(c)4., F.S., the servicer of the nuclear asset-recovery property will file for standard true-up adjustments to the nuclear asset-recovery charges at least every six months to ensure the recovery of revenues sufficient to provide for the timely funding of the Periodic Payment Requirement. Pursuant to Section 366.95(2)(c)2.d., F.S., this

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Financing Order must include a formula-based true-up mechanism for making expeditious periodic adjustments in the nuclear asset-recovery charges that customers are required to pay pursuant to this Financing Order and for making any adjustments that are necessary to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely funding of the Periodic Payment Requirement.

Pursuant to Section 366.95(2)(c)4., F.S., DEF shall file with this Commission at least every six months (and at least quarterly after the last scheduled debt service payment date of nuclear asset-recovery bonds) a petition or a letter applying the formula-based true-up mechanism and, based on estimates of consumption for each rate class and other mathematical factors, requesting administrative approval to make the necessary adjustments. The review of such a request shall be limited to determining whether there is any mathematical error in the application of the formula-based mechanism relating to the amount of any overcollection or undercollection of nuclear asset-recovery charges, or to otherwise ensure the timely payment of nuclear asset-recovery bonds and financing costs and other required amounts and charges payable in connection with the nuclear asset-recovery bonds, and the amount of an adjustment. Such adjustments shall ensure the recovery of revenues sufficient to provide for the timely payment of principal, financing costs, or other required amounts and charges payable in connection with the nuclear asset-recovery bonds approved under this Financing Order (*i.e.*, the Periodic Payment Requirement). Within 60 days of receiving DEF's request, Commission staff will administratively approve the request or inform DEF of any mathematical errors in its calculation. If this Commission informs DEF of any mathematical errors, then DEF may correct that error and refile its request.

In addition to the standard semi-annual true-up adjustments, DEF proposed that the servicer of the nuclear asset-recovery property also be authorized to make optional interim true-up adjustments at any time and for any reason in order to ensure the recovery of revenues sufficient to provide for the timely payment of Periodic Payment Requirement.

In the event an optional interim true-up is necessary, the optional interim true-up adjustment will use the allocation factors utilized in the most recent semi-annual true-up adjustment and will be filed not less than 60 days prior to the first day of the monthly billing cycle in which the revised nuclear asset-recovery charges will become effective.

Similar to the standard semi-annual (and quarterly) true-up adjustments, the review of an optional interim true-up adjustment shall be limited to determining whether there is any mathematical error in the application of the formula-based mechanism relating to the amount of any overcollection or undercollection of nuclear asset-recovery charges and the amount of such adjustment.

The servicer shall also be authorized to seek a non-standard true-up at any time to be effective simultaneously with a base rate change that includes any change in the cost allocation among customers used in determining the nuclear asset-recovery charges, such true-up to go into effect simultaneously with any changes to DEF's other base rates. Commission staff will have 60 days in which to approve a non-standard true-up.

Nuclear Asset-Recovery Property

Pursuant to Section 366.95(2)(c)3., F.S., DEF has requested that this Financing Order provide that the creation of the nuclear asset-recovery property will be conditioned upon, and simultaneous with, the sale of the nuclear asset-recovery property to the SPE and the pledge of the nuclear asset-recovery property to secure the nuclear asset-recovery bonds. The nuclear asset-recovery property to be sold by DEF to the SPE consists of: (1) all rights and interests of DEF or any successor or assignee of DEF under this Financing Order, including the right to impose, bill, collect, and receive the nuclear asset-recovery charges authorized in this Financing Order and to obtain periodic adjustments to such nuclear asset-recovery charges as provided in this Financing Order, and (2) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in clause (1), regardless of whether such revenues, collections, claims, rights to payment, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money, or proceeds.

State Pledge

The State of Florida has pledged to and agrees with Bondholders, the owners of the nuclear asset-recovery property, and other financing parties that the State will not take or permit any action that would impair the value of the nuclear asset-recovery property, as further described in Section 366.95(11), F.S.

FINDINGS OF FACT

I. IDENTIFICATION OF APPLICANT AND PROCEDURAL HISTORY

1. DEF is an "electric utility" within the meaning of 366.8255, F.S., and as used in 366.95(1)(d), F.S.

2. This Commission approved the RRSSA by Order No. PSC-13-1598-FOF-EI, issued November 12, 2013. The RRSSA provides for the treatment and retirement of CR3, and it contains provisions by which DEF is authorized to increase its base rates by the revenue requirement for the CR3 Regulatory Asset, which is a defined term in the RRSSA. On May 22, 2015, DEF filed a petition pursuant to those provisions that is the subject of Docket No. 150148-EI. The May 22nd filing satisfied the requirements of Section 366.95(2)(b). This Commission approved the Amended RRSSA by Order No. PSC-15-0465-S-EI, issued October 14, 2015. The Amended RRSSA clarifies the appropriate recovery period for the CR3 Regulatory Asset if nuclear asset-recovery bonds are issued pursuant to Section 366.95, F.S., and clarifies the appropriate scheduled final maturity date and legal final maturity date for the last maturing tranche of such nuclear asset-recovery bonds. On July 27, 2015, in accordance with the timeframes set out in Section 366.95(2)(b), DEF filed its Petition for a Financing Order that is the subject of Docket No. 150171-EI.

II. NUCLEAR ASSET-RECOVERY BONDS

3. The issuance of nuclear asset-recovery bonds in one or more series in an aggregate amount not to exceed the Securitizable Balance will reimburse DEF for reasonable and prudently incurred nuclear asset-recovery costs associated with the premature retirement of the Crystal River Nuclear Power Plant (CR3) and upfront bond issuance costs. Specifically, the Securitizable Balance consists of (i) the CR3 Regulatory Asset, as determined pursuant to Docket No. 150148-EI plus (ii) upfront bond issuance costs plus (iii) carrying charges accruing at 6.0% per annum on the CR3 Regulatory Asset balance from December 31, 2015 through the date of issuance of the respective series of nuclear asset-recovery bonds.

III. NUCLEAR ASSET-RECOVERY COSTS

4. For the CR3 Regulatory Asset, the RRSSA sets forth the traditional method for financing and recovering nuclear asset-recovery costs. Specifically, the RRSSA allows DEF to increase its base rates by the revenue requirement for the CR3 Regulatory Asset. As set forth in the RRSSA, DEF can recover the CR3 Regulatory Asset value in base rates upon the termination of the Levy Nuclear Plant cost recovery charge. That recovery charge terminated in May 2015; therefore DEF would be authorized to increase its base rates to begin recovering the CR3 Regulatory Asset with the first billing cycle for January 2016. The revenue requirement for the CR3 Regulatory Asset is calculated pursuant to Exhibit 10 to the RRSSA. As explained in updated exhibits filed in Docket No. 150171-EI, the year one calculated annual revenue requirement is $168.3 million and the base rate increase would be $4.96 per 1000 kWh on the residential bill and the total revenue requirement over the 20 year recovery period would be

approximately $2,531 million. Rate increases by customer rate class are contained in Exhibits 30 and 31.

5. The cost amounts contained in DEF's CR3 Regulatory Asset meet the definition of "nuclear asset-recovery costs" pursuant to Section 366.95(1)(k), F.S. Exhibit 10 to the RRSSA sets forth the categories of costs to be included in the CR3 Regulatory Asset, and such costs are therefore nuclear asset-recovery costs. The detailed costs that make up the CR3 Regulatory Asset are shown on page 17 of Order No. PSC-15-0465-S-EI, issued October 14, 2015.

Reasonableness and Prudence of Nuclear Asset-Recovery Costs

6. Pursuant to Section 366.95(2)(c)1.b., this Commission may issue a financing order authorizing financing of reasonable and prudent nuclear asset-recovery costs, and any determination of whether nuclear asset-recovery costs are reasonable and prudent must be made with reference to the general public interests and in accordance with Section 366.95(2)(b).

7. As explained in the testimony filed in Docket No. 150148-EI, DEF took reasonable and prudent actions to minimize the CR3 Regulatory Asset value for its customers. Upon the announcement of the retirement of CR3, DEF promptly carried out the necessary steps to transition the site from a fully staffed and operational plant to a decommissioning site. DEF also submitted several License Amendment Requests ("LARs") to the Nuclear Regulatory Commission to reduce regulatory requirements that resulted in DEF's ability to reduce costs and workforce levels. At the time of the retirement, there were also several pending projects at the site, as noted on Exhibit 10 to the RRSSA. DEF took reasonable and prudent actions to safely and timely close out those projects.

8. We find that DEF also used reasonable and prudent efforts to sell or otherwise salvage assets that would otherwise be included in the CR3 Regulatory Asset. After the retirement decision, the Company promptly formed an investment recovery team and utilized a stepwise process for assessing and dispositioning the CR3 Assets. DEF used a variety of methods to maximize value received, including offering assets on industry utility parts websites like RAPID and Pooled Inventory Management, conducting bid events and an auction, and pursuing sales options with the original manufacturers of some parts. The disposition of the Company's nuclear fuel inventory was handled in a similar manner, but due to the particular market conditions for nuclear fuel components, DEF will not receive proceeds until a future date. As a result of DEF's efforts, the CR3 Regulatory Asset has been reduced by a total of $127.3 million, including $119.4 million for future nuclear fuel proceeds and $7.9 million for sales proceeds and salvage on the assets at CR3. DEF also calculated the CR3 Regulatory Asset value consistent with the provisions of the RRSSA.

9. The amounts that should be authorized for DEF to recover through securitization must meet the criteria set forth in Section 366.95, F.S. By the nature of this proceeding, that amount will not be known with precision until the bonds are issued. The principal amount of the nuclear asset-recovery bonds should be $1,283,012,000, representing the projected December 31, 2015 balance of the CR3 Regulatory Asset, subject to true-up to the actual December 31, 2015 balance, plus carrying charges beyond 2015 until the date of the bond issuance, plus upfront

financing costs. An estimated calculation of the amount of nuclear asset-recovery costs to be financed is shown in Appendix A to this Financing Order.

IV. UPFRONT BOND ISSUANCE COSTS

10. Upfront bond issuance costs as described in the Petition are estimated "financing costs" eligible to be financed from the proceeds of the nuclear asset-recovery bonds. Upfront bond issuance costs include the fees and expenses, including legal expenses, associated with the efforts to obtain this Financing Order, as well as the fees and expenses associated with the structuring, marketing, and issuance of the nuclear asset-recovery bonds, including counsel fees, structuring advisory fees (including counsel), underwriting fees and original issue discount, rating agency and trustee fees (including trustee's counsel), auditing fees, servicer set-up costs (including information technology programming costs), printing and marketing expenses, stock exchange listing fees and compliance fees, filing fees, any applicable taxes (including any documentary transfer tax, if applicable), and the costs of the financial advisor and outside counsel retained by this Commission to assist this Commission in performing its responsibilities under Section 366.95(2)(c)2. and 5., F.S. Upfront bond issuance costs include reimbursement to DEF for amounts advanced for payment of such costs. Upfront bond issuance costs may also include other types of credit enhancement, not specifically described herein, including letters of credit, reserve accounts, surety bonds, interest rate swaps, interest rate locks, and other mechanisms designed to promote the credit quality and marketability of the nuclear asset-recovery bonds or designed to achieve the statutory financing cost objective and the lowest overall cost standard. The upfront bond issuance costs of any credit enhancements shall be included in the amount of costs to be securitized. Upfront bond issuance costs do not include debt service on the nuclear asset-recovery bonds or other ongoing financing costs, which are addressed later in this Financing Order.

11. DEF has provided estimates of upfront bond issuance costs ranging from approximately $10 million to $17 million in Exhibit 79. DEF shall further update the upfront bond issuance costs prior to the pricing of the nuclear asset-recovery bonds in accordance with the Issuance Advice Letter procedures described in Finding of Fact paragraphs 98 through 103 of this Financing Order.

12. Certain upfront bond issuance costs, such as fees for underwriters' services, underwriters' counsel, trustee services and printing services may be procured through a competitive solicitation process to achieve lower costs. The development of any competitive solicitation and selection of underwriters, underwriters' counsel, and other transaction participants other than issuer's counsel shall be overseen by the Bond Team subject to the procedures set forth in Finding of Fact paragraphs 42 through 50 to ensure that the process is truly competitive, will provide the greatest value to ratepayers, and will result in the selection of transaction participants that have experience and ability to achieve an efficient transaction that meets the lowest overall cost standard.

13. In accordance with Section 366.95(2)(c)5., F.S., within 120 days after issuance of the nuclear asset-recovery bonds, DEF is required to file with this Commission supporting information on the upfront bond issuance costs for the categories of costs reflected in Exhibit 18.

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This Commission shall review such costs to determine compliance with Section 366.95(2)(c)5., F.S.. As part of that review, this Commission shall only consider actual upfront bond issuance costs, but not ongoing financing costs, interest rate, or pricing of the bonds.

14. To the extent the actual upfront bond issuance costs are (a) in excess of the amount appearing in the final Issuance Advice Letter filed within one business day after actual pricing of the nuclear asset-recovery bonds, and (b) in compliance with Section 366.95(2)(c)5., F.S., we find that DEF shall collect such excess amounts through the capacity cost recovery clause, if prudently incurred.

15. We acknowledge the actual upfront bond issuance costs to some degree are dependent on the timing of issuance, market conditions at the time of issuance, and other events outside the control of DEF, such as possible litigation, possible review by the United States Securities and Exchange Commission ("SEC"), and rating agency requirements. We also acknowledge that the costs of any financial advisor to this Commission and any outside legal counsel to this Commission to assist us in performing our responsibilities under Section 366.95(2)(c)2. and 5., F.S., including services provided in assisting us in our active role on the Bond Team responsible for the structuring, marketing, and pricing of the nuclear asset-recovery bonds, are costs which are at least in part within the control of this Commission and such costs are fully recoverable from nuclear asset-recovery bond proceeds to the extent such costs are eligible for compensation and approved for payment under the terms of such party's contractual arrangements with this Commission, as such arrangements may be modified by any amendment entered into at this Commission's sole discretion.

V. NUCLEAR ASSET-RECOVERY CHARGE

16. To repay the nuclear asset-recovery bonds and associated financing costs, DEF is authorized to impose a nuclear asset-recovery charge to be collected on a per-kWh basis from all applicable customer rate classes. Nuclear asset-recovery charges should be effective upon the first day of the billing cycle for the month following the issuance of the nuclear asset-recovery bonds and should remain in effect for a recovery period not to exceed the close of the last billing cycle for the 276th month from the inception of the nuclear asset-recovery charge. The nuclear asset-recovery charge is nonbypassable, and must be paid by all existing or future customers receiving transmission or distribution services from DEF or its successors or assignees under Commission-approved rate schedules or under special contracts, even if the customer elects to purchase electricity from an alternative electricity supplier following a fundamental change in regulation of public utilities in this state. Section 366.95(1)(j) and (2)(c)2.c., F.S. In the event that there is a fundamental change in the regulation of public utilities, the nuclear asset-recovery charge shall be collected in a manner that will not adversely affect the rating on the nuclear asset-recovery bonds.

17. The nuclear asset-recovery charge covers the cost associated with repayment of principal of and interest on nuclear asset-recovery bonds and other ongoing financing costs. Ongoing financing costs include, without limitation, rating agency surveillance fees, servicing fees, legal and auditing costs, trustee fees, administration fees, the return on invested capital, regulatory assessment fees and miscellaneous other fees associated with the servicing of the

nuclear asset-recovery bonds. Ongoing financing costs may also include the ongoing financing costs of other types of credit enhancement, not specifically described herein, including letters of credit, reserve accounts, surety bonds, interest rate swap agreements entered into in connection with floating rate nuclear asset-recovery bonds, if issued (currently, DEF expects the bonds to be issued in fixed-rate tranches, and thus floating-to-fixed rate swaps are currently not expected to be necessary), interest rate locks and other mechanisms designed to promote the credit quality and or lower the interest costs of the nuclear asset-recovery bonds.

18. The types of ongoing financing costs identified in DEF's Petition qualify as "financing costs" pursuant to Section 366.95(1)(e), F.S.

19. Exhibit 79 provides an estimate of the ongoing financing costs associated with the nuclear asset-recovery bonds, which, in addition to debt service, will be recovered through the nuclear asset-recovery charge. Certain of these ongoing financing costs, such as the administration fees and the amount of the servicing fee for DEF (as the initial servicer) are determinable, either by reference to an established dollar amount or a percentage, on or before the issuance of the nuclear asset-recovery bonds. Other ongoing financing costs will vary over the term of the nuclear asset-recovery bonds.

Computation of the Nuclear Asset-Recovery Charges

20. A verifiable formula-based mechanism as described in Section 366.95(2)(c)4., F.S., to calculate, and adjust from time to time, the nuclear asset-recovery charges for each customer rate class was submitted by DEF. DEF submitted with its Petition the supporting testimony of Mr. Covington, which provided the formula-based true-up mechanism to determine the Periodic Payment Requirement to be recovered from the nuclear asset-recovery charge (the "True-Up Mechanism"). This True-Up Mechanism is attached as Appendix B.

21. DEF submitted with its Petition supporting testimony with respect to allocation of these periodic costs and the computation of the nuclear asset-recovery charge for each customer rate class. In Exhibit 27, DEF computed the estimated nuclear asset-recovery charge, as described in Section 366.95(1)(j), F.S. In summary, Section 366.95, F.S., provides for the recovery of the nuclear asset-recovery costs through nuclear asset-recovery bonds. Accordingly, in order to compute the charges, DEF first applied the allocation factors to the total first year revenue requirements as presented in Exhibit 33 in order to allocate the revenue requirements to each customer rate class. Next, the rate for the secondary metering level was calculated by dividing total revenue requirements for each customer rate class by the effective kWh sales at secondary metering level for each customer rate class. Then the rates for primary and transmission metering levels were calculated by applying metering reductions of 1% and 2%, respectively, from the secondary rate. Then these rates were grossed-up to reflect uncollectible account write-offs and the regulatory assessment fee to arrive at the nuclear asset-recovery charge by rate schedule.

22. We hereby find that in accordance with Section 366.95(2)(c)2.g., F.S., and consistent with the provisions we previously approved in the Amended RRSSA, DEF should allocate the nuclear asset-recovery costs recoverable under the nuclear asset-recovery charge

consistent with the allocation methodology adopted in the RRSSA approved on November 12, 2013 in Order No. PSC-13-0598-FOF-EI. That approved allocation methodology for DEF is the 12CP and 1/13 AD. Spelled out, that means twelve-thirteenths of the revenue requirement is allocated based on 12 monthly coincident peaks (or demand) and one-thirteenth is allocated based on average demand (or energy).

23. The Commission finds that the True-Up Mechanism provided for in Section 366.95(2)(c)2.d., F.S., for allocating costs among customers creates joint and several liability among all the customers of DEF for payment of the nuclear asset-recovery charges payable in connection with the nuclear asset-recovery bonds. Although holders of nuclear asset-recovery bonds may not arbitrarily seek to impose the entire burden of repaying nuclear asset-recovery bonds on a single customer or a select group of customers outside the True-Up Mechanism, this means that any delinquencies or under-collections in one customer rate class will be taken into account in the application of the True-Up Mechanism to adjust the nuclear asset-recovery charge for all customers of DEF, not just the class of customers from which the delinquency or under-collection arose.

24. In Section 366.95(11)(b), F.S., the State pledges to and agrees with the Bondholders, the owners of nuclear asset-recovery property, and other financing parties that the State will not: (1) alter the provisions of this Section 366.95 which make the nuclear asset-recovery charges imposed by this Financing Order irrevocable, binding, and nonbypassable 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 Section 366.95, reduce, alter, or impair nuclear asset-recovery charges that are to be imposed, collected, and remitted for the benefit of the owners of DEF's nuclear asset-recovery bonds 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. This Commission finds that this State Pledge will constitute a contract with the Bondholders, the owners of nuclear asset-recovery property, and other financing parties.

25. This Commission anticipates stress case analyses will show that the broad-based nature of the true-up mechanism under Section 366.95(2)(c)2.d., F.S., and the State pledge under Section 366.95(11), F.S., will serve to effectively eliminate for all practical purposes and circumstances any credit risk to the payment of the nuclear asset-recovery bonds (*i.e.*, that sufficient funds will be available and paid to discharge the principal and interest when due).

Treatment of Nuclear Asset-Recovery Charge in Tariff and on Customer Bills

26. The tariff applicable to customers shall indicate the nuclear asset-recovery charge and the ownership of the right to receive that charge. The proposed tariff sheet, submitted as Exhibit 32 reflects the needed language. In accordance with Section 366.95(4)(b), F.S., the nuclear asset-recovery charge will be recognized as a separate line item on customer bills entitled Asset Securitization Charge and include the rate and amount of the charge. In addition, all electric bills will state that, as approved in a financing order, all rights to the Asset Securitization

Charge are owned by the SPE and that the Company is acting as collection agent or servicer for the SPE.

Allocation of Collections

27. DEF proposed that nuclear asset-recovery charge collections be allocated based on DEF's existing methodology. Under that methodology, DEF would assign cash collections on a customer-by-customer basis. The first dollars collected from each customer would be applied pro rata to past due balances, if any. Once those balances are paid in full, if cash collections are not sufficient to pay a customer's current bill, then the cash would be prorated between the different components of the bill.

Guaranteed True-Up of Nuclear Asset-Recovery Charges

28. Pursuant to Section 366.95(2)(c)2.d. and (2)(c)4., F.S., the servicer of the nuclear asset-recovery property will file for standard true-up adjustments to the nuclear asset-recovery charges at least every six months to ensure the recovery of revenues sufficient to provide for the timely payment of the principal of and interest on the nuclear asset-recovery bonds and of all of the ongoing financing costs payable by the SPE in respect of nuclear asset-recovery bonds as approved under this Financing Order.

29. After issuance of nuclear asset-recovery bonds, the servicer will submit such true-up adjustment filings in the form attached as an exhibit to the Servicing Agreement (a "True-Up Adjustment Letter"). The True-Up Adjustment Letter will apply the formula-based True-Up Mechanism described herein and in Appendix B to this Financing Order for making expeditious periodic adjustments in the nuclear asset-recovery charge to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of the Periodic Payment Requirement. The Periodic Payment Requirement will be composed of the following components for the period from the issue date of nuclear asset-recovery bonds to the first scheduled debt service payment date, and for each subsequent period between scheduled debt service payment dates (each a "Remittance Period"): (i) the payments of the principal of and interest on the nuclear asset-recovery bonds issued by the SPE, in accordance with the expected amortization schedule, including deficiencies on past-due principal and interest for any reason, and interest on deficiencies on past-due principal and interest, (ii) ongoing financing costs payable during the Remittance Period, including without limitation, the operating costs of the SPE, the cost of servicing the nuclear asset-recovery bonds, trustee fees, rating agency fees, legal and auditing fees, the cost of funding and/or replenishing the Capital Subaccount, the return on investment on the Capital Subaccount deposit and any other credit enhancements established in connection with the nuclear asset-recovery bonds issued by the SPE and other related fees and expenses and (iii) other required amounts and charges payable in connection with the nuclear asset-recovery bonds. The first Periodic Payment Requirement established through the Issuance Advice Letter procedures may be calculated based upon a Remittance Period that is greater than six months. The final Periodic Payment Requirement may be calculated based upon a Remittance Period that is less than six months. Notwithstanding the foregoing, in the event that any nuclear asset-recovery bonds are outstanding following the last scheduled debt service payment date for such bonds, the Periodic Payment Requirement will be calculated so that

collections are sufficient to make all payments on those nuclear asset-recovery bonds and in respect of financing costs no later than the immediately following debt service payment date. Along with each True-Up Adjustment Letter, the servicer shall provide workpapers showing all inputs and calculations, including its calculation of the nuclear asset-recovery charge by customer rate class. Consistent with Section 366.95(2)(c)4., F.S., our staff, upon the filing of a True-Up Adjustment Letter made pursuant to this Order, will either administratively approve the requested true-up calculation in writing or inform the servicer of any mathematical errors in its calculation as expeditiously as possible but no later than 60 days following the servicer's true-up filing. Notification and correction of any mathematical errors shall be made so that the true-up is implemented within 60 days of the servicer's true-up filing. If no action is taken within 60 days of the true-up filing, the true-up calculation shall be deemed approved. Upon administrative approval or the passage of 60 days without notification of a mathematical error, no further action of this Commission will be required prior to implementation of the true-up. Section 366.95(2)(c)2.d., F.S., provides that the true-up adjustments will "ensure the timely payment of nuclear asset-recovery bonds." We find that this True-Up Mechanism, together with the State Pledge, will "Guarantee" the timely payment of the principal and interest of the bonds.

30. In addition to the semi-annual true-up adjustment, DEF, as servicer (or a successor servicer) will also be authorized to make optional interim true-up adjustments at any time for any reason to ensure timely payment of the Periodic Payment Requirement, which adjustment will be implemented based upon the same time frames as the semi-annual true-ups.

31. To Guarantee adequate nuclear asset-recovery charge collections and to avoid large over-collections and under-collections over time, we direct that the servicer shall reconcile nuclear asset-recovery charges using DEF's most recent forecast of electricity deliveries (*i.e.*, forecasted billing units) used for all corporate purposes and DEF's estimates of related expenses. Each periodic true-up adjustment should Guarantee recovery of revenues sufficient to meet the Periodic Payment Requirement. The calculation of the nuclear asset-recovery charges will also reflect both a projection of uncollectible nuclear asset-recovery charges and a projection of payment lags between the billing and collection of nuclear asset-recovery charges based upon DEF's most recent experience regarding collection of nuclear asset-recovery charges.

32. The servicer may also make a non-standard true-up adjustment to be effective simultaneously with a base rate change that includes any change in the rate allocation among customers used to determine the nuclear asset-recovery charges, such true-up to go into effect simultaneously with any changes to DEF's other base rates. Any non-standard true-up will be subject to approval within the 60-day approval period contemplated by Section 366.95(2)(c)4., F.S.

33. This Commission finds that the broad-based nature of the True-Up Mechanism and the pledge of the State of Florida set forth in Section 366.95(11), F.S., will constitute a guarantee of regulatory action for the benefit of investors in nuclear asset-recovery bonds, and we anticipate that stress case analyses will show that these features will serve to effectively eliminate for all practical purposes and circumstances any credit risk associated with the nuclear asset-recovery bonds (*i.e.*, that sufficient funds will be available and paid to discharge all principal of and interest on the nuclear asset-recovery bonds when due).

34. This Commission finds that the True-Up Mechanism is appropriate and consistent with Section 366.95, F.S., and it should be approved. This Commission also finds that each True-Up Adjustment Letter should be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement (including scheduled principal and interest payments on the nuclear asset-recovery bonds) and the estimated amount of nuclear asset-recovery charge collections to be remitted to the indenture trustee during the Remittance Period.

VI. MITIGATION OF RATE IMPACTS

35. Section 366.95(2)(a)5., F.S., requires an electric utility petitioning this Commission for a financing order to "estimate any projected cost savings, based on current market conditions, or demonstrate how the issuance of nuclear asset-recovery bonds and the imposition of nuclear asset-recovery charges would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs from customers." In addition, Section 366.95(2)(a)6., F.S., requires an electric utility petitioning this Commission for a financing order to demonstrate "that securitization has a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts compared to the traditional method of cost recovery." For the CR3 Regulatory Asset, the RRSSA sets forth the traditional method for financing and recovering nuclear asset-recovery costs. Specifically, the RRSSA allows DEF to increase its base rates by the revenue requirement for the CR3 Regulatory Asset. As set forth in the RRSSA, DEF can recover the CR3 Regulatory Asset value in base rates upon the termination of the Levy Nuclear Plant cost recovery charge. That recovery charge terminated in May 2015; therefore DEF would be authorized to increase its base rates to begin recovering the CR3 Regulatory Asset with the first billing cycle for January 2016. The revenue requirement for the CR3 Regulatory Asset is calculated pursuant to Exhibit 10 to the RRSSA.

36. We find that DEF has demonstrated that securitization has a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts compared to the traditional method of cost recovery pursuant to Section 366.95(2)(a)6., F.S.

37. If nuclear asset-recovery bonds are not issued, DEF has proposed recovery of nuclear asset-recovery costs through the traditional method of recovering such amounts through the implementation of a base rate increase. Specifically, we find that the year-one base rate increase would be $4.96 per 1000 kWh on the residential bill and the total revenue requirement over the 20 year recovery period would be approximately $2,531 million, and the rate increases for the other customer rate classes are contained in Exhibits 30 and 31.

38. In contrast, based on DEF's request to recover its nuclear asset-recovery costs through the issuance of nuclear asset-recovery bonds in one or more series in an aggregate principal amount not to exceed the Securitizable Balance (assuming a scheduled final debt service payment date of approximately 20 years, and final legal maturity of up to 23 years), DEF estimates that an initial nuclear asset-recovery charge of approximately $2.93 would be imposed on a typical (1,000 kWh) residential bill and the estimated cumulative revenue requirement amount over the total period outstanding would be $1,823 million. DEF has demonstrated that, based on current market conditions, this total estimated cumulative revenue requirement would

be $708 million lower, on an undiscounted basis, compared to the total estimated cumulative revenue requirement under the traditional recovery method.

39. Thus, we find that the issuance of the nuclear asset-recovery bonds and the imposition of the nuclear asset-recovery charges authorized by this Financing Order have a significant likelihood of resulting in lower overall costs or would significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs. Likewise, through implementation of the required standards, conditions and procedures established in this Financing Order, we find that the structuring, marketing and pricing of nuclear asset-recovery bonds are reasonably expected to mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs.

40. The broad based nature of the State pledge under Section 366.95(11), F.S., and the irrevocable character of this Financing Order, in conjunction with the true-up adjustment provisions required by Section 366.95(2)(c)2.d, F.S., and included in this Financing Order, constitutes a guarantee of regulatory action for the benefit of investors in nuclear asset-recovery bonds.

41. This Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by Sections 366.95(2)(c)2.d. and 366.95(2)(c)4., F.S., to ensure that nuclear asset-recovery charge revenues are sufficient to pay principal of and interest on the nuclear asset-recovery bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the nuclear asset-recovery bonds.

VII. BOND TEAM

42. DEF, its structuring advisor, and designated Commission staff and its financial advisor should serve on the Bond Team.

43. One designated representative of DEF and one designated representative of this Commission should be joint decision makers in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law and other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriter agreement(s)).

44. This Commission's designated staff and financial advisor should be visibly involved, in advance, in all aspects of the structuring, marketing, and pricing of the nuclear asset-recovery bonds.

45. All Bond Team members should actively participate in the design of the marketing materials for the transactions as well as in the development and implementation of the marketing and sales plan for the bonds.

46. DEF and this Commission's staff and its financial advisor as Bond Team members, excluding DEF's structuring advisor, should also have equal rights on the hiring decisions for the underwriters and counsel to the underwriters. However, DEF should have sole right to select and engage all counsel for DEF and the SPE.

47. The final structure of the transaction, including pricing, will be subject to review by this Commission for the limited purpose of ensuring that all requirements of law and this Financing Order have been met.

48. Together with the Bond Team's involvement in the structuring, marketing and pricing of the nuclear asset-recovery bonds, and the Issuance Advice Letter process, this Commission should be able to fully review the pricing of the bonds as this Commission determines whether to issue a stop order no later than 5:00 pm Eastern time on the third business day following pricing.

49. The Bond Team structure and process affords the flexibility that is reasonable and consistent with Section 366.95(2)(c)2.f., F.S.

50. This Commission should designate one Commissioner to resolve any issue as to which the DEF and Commission staff joint decision makers are unable to reach agreement. Any such matter should be presented by the DEF and Commission staff joint decision makers by email or in other writing. The designated Commissioner should announce his or her decision on the matter presented to the DEF and Commission staff joint decision makers by email or other writing as soon as reasonably possible. The parties to this proceeding agree that the decision of the designated Commissioner should be final and not subject to review by this Commission.

VIII. FLEXIBILITY

51. In this Financing Order, we approve the financing of nuclear asset-recovery costs and upfront bond issuance costs through nuclear asset-recovery bonds with terms to be established by DEF, at the time of pricing, subject to compliance with the Issuance Advice Letter Procedures outlined in this Financing Order. As discussed above, under Mitigation of Rate Impacts, DEF has provided testimony establishing that the issuance of the nuclear asset-recovery bonds will significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs. Section 366.95(2)(c)2.f., F.S., requires this Commission to specify the degree of flexibility to be afforded to DEF in establishing the terms and conditions of the nuclear asset-recovery bonds, including, but not limited to, repayment schedules, expected interest rates, and other financing costs consistent with 366.95(2)(c)2.a.-e., F.S. Furthermore, Section 366.95(2)(c)2.i., F.S., directs this Commission to "[i]nclude any other conditions that this Commission considers appropriate and that are authorized by this section." While we recognize the need for some degree of flexibility with regard to the final details of the nuclear asset-recovery bond securitization transaction approved in this Financing Order, our primary focus is on ensuring that the structuring, marketing, and pricing of nuclear asset-recovery bonds achieves the lowest overall cost standard and the greatest possible customer protections. Therefore, we find and direct that the standard for this Financing

Order should be that the structuring, marketing, and pricing of nuclear asset-recovery bonds will achieve the lowest overall cost standard and the greatest possible customer protections.

52. The previously approved Amended RRSSA proposes that the SPE issue nuclear asset-recovery bonds with a scheduled final debt service payment date for the last maturing tranche as close as is reasonably possible to the close of the last billing cycle for the 240th month from inception of imposition of the nuclear asset-recovery charge. We find that the appropriate recovery period for the nuclear asset-recovery charge is 240 months from inception of imposition of the nuclear asset-recovery charge or until the nuclear asset-recovery bonds and associated charges and approved adjustments have been paid in full, but not to exceed 276 months from inception of imposition of the nuclear asset-recovery charge. The exact scheduled final maturity and legal final maturity of the nuclear asset-recovery bonds will be determined after issuance of this Financing Order. This Commission further finds that the period of 240 months from inception of imposition of the nuclear asset-recovery charge or until the nuclear asset-recovery bonds and associated charges and approved adjustments have been paid in full, but not to exceed 276 months from inception of imposition of the nuclear asset-recovery charge, for recovery of the nuclear asset-recovery charge is appropriate and that such recovery period is consistent with the Amended RRSSA.

53. We find that nuclear asset-recovery bonds should be issued in one or more series, each series of nuclear asset-recovery bonds should be issued in one or more tranches, and the nuclear asset-recovery bonds should be structured by DEF, in consultation with the other members of the Bond Team and subject to Finding of Fact paragraph 50 and Ordering Paragraph 67, to achieve the statutory financing cost objective and the lowest overall cost standard. Further, the nuclear asset-recovery bonds shall be structured such that the expected payment of the principal of and interest on the nuclear asset-recovery bonds is expected to be substantially level over those expected terms.

54. Subject to the Issuance Advice Letter procedures in Finding of Fact paragraphs 98 through 103, DEF, in consultation with the other members of the Bond Team subject to Finding of Fact paragraph 42 through 50, shall be afforded flexibility in determining the final terms of each series of the nuclear asset-recovery bonds, including payment and maturity dates, interest rates (or the method of determining interest rates), the terms of any interest rate swap agreement, interest rate lock or similar agreement, the creation and funding of any supplemental capital, reserve or other subaccount, and the issuance of nuclear asset-recovery bonds through either one SPE or multiple SPEs, except as otherwise provided in this Financing Order.

55. As noted above, certain costs, such as debt service on the nuclear asset-recovery bonds, as well as the ongoing fees of the trustee, rating agency surveillance fees, regulatory assessment fees and the ongoing financing costs of any other credit enhancement or interest rate swaps, will not be known until the pricing of a series of nuclear asset-recovery bonds. This Financing Order provides flexibility to recover such costs through the nuclear asset-recovery charge and the true-up of such charge. At the same time, we have established the Issuance Advice Letter procedures in Findings of Fact paragraphs 98 through 103 of this Financing Order which are intended to ensure that the structuring, marketing and pricing of nuclear asset-recovery bonds achieves the statutory cost objectives and lowest overall cost standard.

56. This Commission finds that a bond structure, providing for substantially levelized annual revenue requirements over the expected life of the nuclear asset-recovery bonds, is in the general public interest and should be used. This structure offers the benefit of not relying upon electric utility customer growth and will allow the resulting overall weighted average nuclear asset-recovery charges to remain level or decline over time, if billing determinants remain level or grow.

IX. TRANSACTION STRUCTURE

57. DEF's proposed transaction structure, as set forth and modified in the Amended RRSSA and in the body of this Financing Order, is hereby approved.

The SPE

58. DEF will create one or more SPEs as bankruptcy remote, Delaware limited liability companies, in each case, with DEF as its sole member. Each SPE will be formed for the limited purpose of acquiring nuclear asset-recovery property, issuing nuclear asset-recovery bonds in one or more series (each of which may be issued in one or more classes or tranches), and performing other activities relating thereto or otherwise authorized by this Financing Order.

59. The SPE will be a special purpose finance company, a subsidiary of DEF and a corporate issuer.

60. The SPE(s) may issue nuclear asset-recovery bonds approved in this Financing Order, or in future financing orders, so long as such future issuance does not adversely affect the ratings on outstanding nuclear asset-recovery bonds issued for the benefit of DEF. The SPE(s) may issue nuclear asset-recovery bonds approved in this Financing Order in an aggregate amount not to exceed the Securitizable Balance approved by this Financing Order and will pledge to an indenture trustee, as collateral for payment of the nuclear asset-recovery bonds, the nuclear asset-recovery property, including the SPE's right to receive the nuclear asset-recovery charges as and when collected, and other collateral described in the Indenture. The SPE will not be permitted to engage in any other activities and will have no assets other than nuclear asset-recovery property and related assets to support its obligations under the nuclear asset-recovery bonds and the ongoing financing costs. These restrictions on the activities of the SPE and restrictions on the ability of DEF to take action on the SPE's behalf are imposed to achieve the objective that the SPE will be bankruptcy-remote and not be affected by a bankruptcy of DEF or any affiliate.

61. Each SPE will be managed by a board of managers with rights and duties set forth in its organizational documents. As long as nuclear asset-recovery bonds remain outstanding, the SPE will have at least one independent manager with no organizational affiliation with DEF other than possibly acting as independent manager(s) for another bankruptcy-remote subsidiary of DEF or its affiliates. The SPE will not be permitted to amend the provisions of the LLC Agreement or other organizational documents that relate to bankruptcy-remoteness of the SPE without the consent of the independent manager(s). Similarly, the SPE will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert, or merge

without the consent of the independent managers. To the extent provided in its organizational documents, the transaction documents and this Financing Order, the Commission will be deemed to have contractual privity with the SPE for purposes of enforcing those documents. Other restrictions to facilitate bankruptcy-remoteness may also be included in the organizational documents of the SPE as required by the rating agencies.

62. The SPEs will have no staff to provide administrative services (such as corporate maintenance, reporting and internal accounting functions). These services will be provided by DEF pursuant to the terms of the Administration Agreement.

63. Per rating agency and IRS requirements, DEF will transfer to the SPE an amount required to capitalize the SPE adequately (the "SPE Capitalization Level") for deposit into the Capital Subaccount. The SPE Capitalization Level is expected to be 0.50% of the initial principal amount of the nuclear asset-recovery bonds to be issued by the SPE or such greater amount as might be needed to meet IRS or rating agency requirements. The actual SPE Capitalization Level will depend on tax and rating agency requirements and will be subject to review and approval by the Bond Team pursuant to the procedures set forth in Finding of Fact paragraphs 42 through 50. We find that the lowest overall cost standard generally will be met by ensuring that the SPE Capitalization Level does not exceed the minimum amount needed to meet IRS and rating agency requirements.

Principal Amortization

64. The expected final debt service payment date for the last maturing tranche of the nuclear asset-recovery bonds should be as close as is reasonably possible to the close of the last billing cycle for the 240th month from inception of imposition of the nuclear asset-recovery charge. The legal final maturity date for the last maturing tranche of nuclear asset recovery bonds should be no later than the 276th month from inception of the imposition of the charge. The exact scheduled final maturity and legal final maturity of the nuclear asset-recovery bonds shall be determined by the Bond Team after issuance of this Financing Order.

65. Annual payments of principal of and interest on the nuclear asset-recovery bonds shall be substantially level over the expected term of the nuclear asset-recovery bonds.

66. The energy sales forecasts used to develop the nuclear asset-recovery bond amortization schedules and the recovery mechanism are appropriate.

67. The first payment of principal and interest for each series of nuclear asset-recovery bonds shall occur within 12 months of issuance. Payments of principal and interest thereafter shall be no less frequent than semi-annually.

Interest Rates

68. We find that each tranche of the nuclear asset-recovery bonds should have a fixed interest rate, based on current market conditions. If market conditions change, and it becomes necessary for the one or more tranches of bonds to be issued in floating-rate mode, DEF is

authorized to issue such bonds but will be required to execute agreements to swap the floating payments to fixed-rate payments.

Ongoing Financing Costs

69. DEF will be the initial servicer of the nuclear asset-recovery bonds. To preserve the integrity of the bankruptcy-remote structure of the SPE and ensure the high credit quality of the nuclear asset-recovery bonds, the servicer must be adequately compensated for the services it provides, including the calculation, billing, and collection of nuclear asset-recovery charges, remittance of those charges to the indenture trustee, and the preparation, filing, and processing of True-Up Adjustment Letters. DEF's proposed form of Servicing Agreement provides for an ongoing servicing fee for the initial servicer in the amount of 0.05 percent of the initial principal amount of the nuclear asset-recovery bonds. We find that this level of ongoing servicing fee is appropriate for the purpose of preserving the integrity of the bankruptcy-remote structure of the SPE and ensuring the high credit quality of the nuclear asset-recovery bonds.

70. DEF will establish the SPE and perform the administrative duties necessary to maintain the SPE. To preserve the integrity of the bankruptcy-remote structure of the SPE and ensure the high credit quality of the nuclear asset-recovery bonds, the administrator must be adequately compensated for these services. The ongoing fee for these services will be $50,000 per year. We find that this level of ongoing fee is appropriate for the purpose of preserving the integrity of the bankruptcy-remote structure of the SPE and ensuring the high credit quality of the nuclear asset-recovery bonds.

Credit Ratings

71. This Commission finds that the credit quality of the nuclear asset-recovery bonds will be enhanced by Section 366.95, F.S., due to the requirements that (1) the nuclear asset-recovery charge in amounts authorized by this Commission are to be imposed on all customer bills and collected in full in the form of a nonbypassable charge separate from DEF's base rates, (2) the charge shall be paid by all existing and future customers receiving transmission or distribution services from DEF, and (3) following any fundamental change in regulation of public utilities in the State of Florida, a customer electing to purchase electricity from an alternate electricity supplier must still pay the nuclear asset-recovery charge. Furthermore, through the True-Up Mechanism, any delinquencies or under-collections in one customer rate class will be taken into account in the application of the True-Up Mechanism to adjust the nuclear asset-recovery charge for all customers of DEF, not just the class of customers from which the delinquency or under-collection arose.

72. The Company anticipates that each series of nuclear asset-recovery bonds will have a AAA/Aaa rating from at least two nationally recognized rating agencies, and if not inconsistent with the lowest overall cost standard DEF is authorized to provide necessary credit enhancements, with recovery of related costs as a form of ongoing financing costs, to achieve such ratings.

Offering and Sale of the Bonds

73. DEF has proposed that the nuclear asset-recovery bonds be offered pursuant to an SEC-registered offering, rather than a private placement or a Rule 144A qualified institutional offering. The Company has provided testimony to the effect that virtually all utility securitizations have been sold as SEC-registered public transactions. Further, the Company has provided testimony to the effect that an SEC-registered, public offering, is likely to result in a lower cost of funds relative to Rule 144A qualified institutional offering, all else being equal, due to the enhanced transparency and liquidity of publicly-registered securities. New SEC registration requirements will become effective prior to December 2015. Compliance with these new requirements may increase costs and result in delay of the offering. Accordingly, subject to the Issuance Advice Letter procedure, this Commission finds that an SEC-registered public offering is most likely to result in lower costs to consumers, and should be approved. However, this Commission further finds, in light of new SEC registration requirements, DEF, in consultation with the other members of the Bond Team, subject to the Issuance Advice Letter procedures and Finding of Fact paragraph 50 and Ordering Paragraph 67, may pursue a Rule 144A qualified institutional offering of the nuclear asset-recovery bonds.

74. DEF has proposed that the bonds be sold pursuant to a sale to one or more underwriters in a negotiated offering. DEF has testified that a negotiated underwriting is likely to provide greater flexibility and availability of investor funds than a competitively sold transaction. DEF and this Commission's staff, together with this Commission's financial advisor and other Bond Team members (other than DEF's structuring advisor) should have equal rights on the hiring decisions for the underwriters and counsel to the underwriters. This Commission finds, subject to the Issuance Advice Letter procedures, that the issuance of the nuclear asset-recovery bonds pursuant to a negotiated sale is likely to result in lower overall costs and satisfy the statutory financing cost objective, and should be approved. However, DEF, in consultation with the other members of the Bond Team, subject to the Issuance Advice Letter procedures and Finding of Fact paragraph 50 and Ordering Paragraph 67 is authorized to pursue other sale options, including a competitively sold transaction, in order to satisfy the statutory cost objectives and the lowest overall cost standard.

Security for the Nuclear Asset-Recovery Bonds

75. As proposed by DEF, the payment of the nuclear asset-recovery bonds and related financing costs authorized by this Financing Order is to be secured by the nuclear asset-recovery property created by this Financing Order and by certain other collateral as described in the Petition. The nuclear asset-recovery bonds will be issued pursuant to the Indenture under which the indenture trustee will administer the trust. The Indenture shall include provisions for a Collection Account for each series of nuclear asset-recovery bonds and subaccounts for the collection and administration for the nuclear asset-recovery charges and payment or funding of the principal of and interest on the nuclear asset-recovery bonds and other costs, including fees and expenses, in connection with the nuclear asset-recovery bonds, as described in this Financing Order. Pursuant to the Indenture, the SPE shall establish a Collection Account as a trust account to be held by the indenture trustee as collateral to ensure the timely payment of the principal of, interest on, and other costs related to the series of nuclear asset-recovery bonds. The Collection

Highlight by Witness

Account shall include a General Subaccount, a Capital Subaccount and an Excess Funds Subaccount, and may include other subaccounts if required to obtain AAA/Aaa ratings on the series of nuclear asset-recovery bonds. Final terms of the Indenture shall be approved by the Bond Team.

76. The Excess Funds Subaccount will hold any nuclear asset-recovery charge collections and investment earnings on amounts in the Collection Account in excess of the amounts needed to pay current principal of and interest on the nuclear asset-recovery bonds and to pay other Periodic Payment Requirements (including, but not limited to, funding or replenishing the Capital Subaccount). Any balance in or allocated to the Excess Funds Subaccount on a true-up adjustment date will be subtracted from the Periodic Revenue Requirement for purposes of the true-up adjustment. The funds in this Excess Funds Subaccount will be invested by the indenture trustee in short-term high-quality investments, and such funds (including investment earnings thereon) will be used by the indenture trustee to reduce the nuclear asset-recovery revenue requirement for purposes of the true-up adjustment.

77. The Collection Account and the subaccounts described above are intended to facilitate the full and timely payment of scheduled principal of and interest on the series of nuclear asset-recovery bonds and all other components of the Periodic Payment Requirement. If for any reason the amount of nuclear asset-recovery charge collections in the General Subaccount is insufficient to make, on a timely basis, all scheduled payments of principal of and interest on the nuclear asset-recovery bonds and to make payment of all of the other components of the Periodic Payment Requirement, the Excess Funds Subaccount and the Capital Subaccount will be drawn down, in that order, to make those payments. Any deficiency in the Capital Subaccount due to such withdrawals must be replenished on a periodic basis through the true-up process. In addition to the foregoing, there may be such additional accounts and subaccounts as are necessary to segregate amounts received from various sources, or to be used for specified purposes. Such accounts and subaccounts will be administered and utilized as set forth in the Servicing Agreement and the Indenture. Upon the maturity of the series of nuclear asset-recovery bonds and upon discharge of all obligations in respect thereof, amounts remaining in the Collection Account will be released to the SPE and will be available for distribution by the SPE to DEF. Equivalent amounts, less the amount of the Capital Subaccount, will be credited by DEF to current customers' bills in the same manner that the charges were collected, or through a credit to the capacity cost recovery clause if this Commission determines at the time of retirement that a direct credit to customers' bills is not cost-effective. DEF shall similarly credit customers an aggregate amount equal to any nuclear asset-recovery charges subsequently received by the SPE or its successor in interest to the nuclear asset-recovery property.

DEF as Initial Servicer of the Nuclear Asset-Recovery Bonds

78. DEF will execute a Servicing Agreement, the final terms of which shall be determined by the Bond Team pursuant to the procedures set forth in Finding of Fact paragraphs 98 through 103. The Servicing Agreement may be amended, renewed, or replaced by another servicing agreement in accordance with its terms and as approved by this Commission.

a. Under the Servicing Agreement, the servicer shall be required, among other things, to impose, bill, collect and receive the nuclear asset-recovery charges for the benefit and account of the SPE, to make the periodic true-up adjustments of nuclear asset-recovery charges required or allowed by this Financing Order, and to account for and remit the nuclear asset-recovery charges to or for the account of the SPE in accordance with the remittance procedures contained in the Servicing Agreement without any charge, deduction, or surcharge of any kind, other than the servicing fee specified in the Servicing Agreement. The appropriate servicing fee shall be as set forth in this Financing Order.

b. The annual fee for ongoing services will be 0.05 percent of the initial principal amount of the nuclear asset-recovery bonds.

c. In addition to the annual ongoing servicing fee, DEF proposes to recover as an upfront bond issuance cost, DEF's actual costs to recover set-up costs of the servicer, including information technology programming costs to adapt DEF's existing systems to bill, collect, receive and process nuclear asset-recovery charges, and to set up necessary servicing functions. DEF estimates its actual set-up costs to be approximately $915,000. The reasonableness of these additional upfront bond issuance costs will be subject to review by this Commission pursuant to Section 366.95(2)(c)5. As part of this review, the Commission shall only consider actual upfront bond issuance costs, but not ongoing financing costs, interest rate, or pricing of the bonds.

d. DEF shall indemnify customers to the extent customers incur losses associated with higher servicing fees payable to a substitute servicer, or higher administration fees payable to a substitute administrator, as a result of (a) DEF's negligence, recklessness or willful misconduct, or (b) DEF's termination for cause attributable to its own actions. This indemnification provision shall be reflected in the transaction documents for these nuclear asset-recovery bonds.

e. DEF has proposed that it not be permitted voluntarily to resign from its duties as servicer if the resignation will harm the credit rating on nuclear asset-recovery bonds issued by the SPE. Even if DEF's resignation as servicer would not harm the credit rating on the nuclear asset-recovery bonds issued by the SPE, we find and direct that DEF shall not be permitted to voluntarily resign from its duties as servicer without consent of this Commission. If DEF defaults on its duties as servicer or is required for any reason to discontinue those functions, then DEF proposes that a successor servicer acceptable to the indenture trustee be named to replace DEF as servicer so long as such replacement would not cause any of the then current credit ratings of the nuclear asset-recovery bonds to be suspended, withdrawn or downgraded. We find that any successor servicer to DEF also should be acceptable to this Commission.

f. DEF has proposed that, and we find and direct that, the servicing fee payable to a substitute servicer should not exceed 0.60% per annum on the initial principal balance of the nuclear asset-recovery bonds, unless a higher fee is approved by this Commission.

g. We find and direct that the SPE and the indenture trustee shall not be permitted to waive any obligations of DEF as transferor or as servicer of nuclear asset-recovery property without express written consent of this Commission.

DEF as Administrator of the SPE

79. Under the Administration Agreement, DEF will establish the SPE and perform the administrative duties necessary to maintain the SPE. The appropriate administration fee shall be as set forth in this Financing Order.

80. The annual fee for performing the services required by the Administration Agreement will be $50,000. We find that this fee is reasonable.

81. DEF will credit back to customers through the Capacity Cost Recovery Clause all periodic servicing fees in excess of DEF's or an affiliate of DEF's incremental cost of performing the servicer function until the next rate case when costs and revenues associated with the servicing fees will be included in the cost of service. DEF will credit back to customers through the Capacity Cost Recovery Clause all periodic administration fees in excess of DEF's or an affiliate of DEF's incremental cost of performing the administration function until the next rate case when costs and revenues associated with the administration fees will be included in the cost of service. We find this to be reasonable.

Nuclear Asset-Recovery Bonds To Be Treated As "Debt" for Federal Income Tax Purposes

82. In light of the IRS safe harbor rules, we find that DEF shall be responsible to structure the nuclear asset-recovery bond transactions in a way that clearly meets all requirements for the IRS' safe harbor treatment.

X. UNDERWRITER REQUIREMENTS

83. DEF and this Commission's staff and this Commission's financial advisor as Bond Team members, excluding DEF's structuring advisor, should have equal rights on the hiring decisions for underwriters and counsel for the underwriters.

84. We find that requiring all book-running underwriters of a series of nuclear asset-recovery bonds to deliver periodic reports with indicative pricing levels derived independently by each book-running underwriter for the nuclear asset-recovery bonds before any public offering of that series of nuclear asset-recovery bonds is launched is likely to facilitate achievement of the statutory financing cost objective and the lowest overall cost standard. We also find that the Bond Team may request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard.

85. We find that requiring the book-running underwriter(s) of nuclear asset-recovery bonds to provide the Bond Team documentary verification that any term sheet, prospectus, registration statement, offering memorandum or other marketing materials used by the underwriting syndicate in marketing the nuclear asset-recovery bonds (collectively, the "offering documents") receives a broad distribution to potential investors most likely to accept the lowest yield on the nuclear asset-recovery bonds will facilitate achievement of the statutory financing

cost objective and the lowest overall cost standard. This documentary verification may be provided on a confidential basis to members of the Bond Team to the extent confidential classification of the information included therein is permitted by law.

XI. COMMISSION PARTICIPATION IN THE TRANSACTION

86. We recognize that the nuclear asset-recovery bonds approved through this Financing Order are very different from the typical bonds issued by DEF. Pursuant to Section 366.95, F.S., we must forego future regulatory oversight in order to create a financing instrument of superior quality and a completely separate credit from the sponsoring utility. Section 366.95, F.S., requires us to issue an irrevocable financing order in which the sponsoring utility, DEF, is insulated from most costs associated with the financing. We are also required to approve a true-up mechanism, as we have done in this Financing Order, that commits this Commission to periodically adjust the nuclear asset-recovery charge that supports the nuclear asset-recovery bonds to whatever level is necessary to make timely payments of principal and interest on the bonds. In addition, the State and this Commission are required to pledge to Bondholders, among other things, never to take or permit any action to be taken that would interfere with their right to payment. The irrevocable nature of this Financing Order, the direct broad-based nuclear asset-recovery charge applied to all DEF ratepayers, the unconditional Commission guarantee to adjust the nuclear asset-recovery charge as necessary, and the explicit pledge of the State not to interfere with the Bondholders' rights to repayment result in an incredibly strong senior, secured credit independent of DEF.

87. We also recognize that the nuclear asset-recovery bonds approved through this Financing Order are different from the typical bonds issued by DEF in terms of the degree of Commission oversight after the issuance. In typical utility debt financings, this Commission retains the right to disallow any unreasonable or imprudent costs for ratemaking purposes, including adjustments for the interest rate. For the proposed issuance of nuclear asset-recovery bonds, while the issuance costs are subject to review under Section 366.95(2)(c)5., F.S. (and as part of that review the Commission shall only consider actual upfront bond issuance costs, but not ongoing financing costs, interest rate, or pricing of the bonds), we find that an after-the-fact review of the interest rate achieved will not allow us to determine whether the lowest overall cost standard has been achieved.

88. We recognize that another difference between typical utility bonds and the nuclear asset-recovery bonds approved through this Financing Order is how these bonds impact DEF's financial position. In more typical debt offerings, DEF has a strong incentive to negotiate hard with underwriters for the lowest possible interest rates as well as the lowest possible underwriting fees. DEF also has a strong incentive to minimize other issuance costs. Between rate cases, the benefit from a low net cost of funds is enjoyed at least in part by DEF's shareholders, and the detriment from a high net cost of funds is borne at least in part by these same shareholders. These same checks and balances do not exist for the issuance of nuclear asset-recovery bonds. While typical utility bonds directly impact DEF's financial ratios, nuclear asset-recovery bonds are not direct obligations of DEF and are non-recourse to DEF. For these reasons, the same incentives and consequences for pursuing a lowest overall cost of funds with

regard to DEF's typical utility bonds are not present with respect to the proposed nuclear asset-recovery bonds.

89. Further, we find that unless the superior credit quality of these bonds is accurately and completely reflected in the marketing materials, there is no assurance that the nuclear asset-recovery bonds approved through this Financing Order will achieve the lowest overall cost standard.

90. This Commission has engaged the services of a financial advisor and outside legal counsel for the purposes described herein in this Financing Order. This Commission will have the sole authority to retain its financial advisor and its outside legal counsel and, if needed, terminate and replace the financial advisor or outside legal counsel.

91. We find that this Commission, as represented by designated Commission staff, this Commission's financial advisor, and this Commission's outside legal counsel, shall be actively and integrally involved in the bond issuance on a day-to-day basis, subject to Finding of Fact paragraph 50 and Ordering Paragraph 67 as part of a Bond Team that also includes DEF, its structuring advisor or underwriter(s), and its outside counsel(s), in all aspects of the structuring, marketing, and pricing of each series of nuclear asset-recovery bonds. This will allow for meaningful and substantive cooperation among DEF and this Commission and its representatives to ensure that the structuring, pricing, and financing costs of the nuclear asset-recovery bonds will achieve the statutory cost objectives and the lowest overall cost standard. Cooperation among DEF and this Commission will promote transparency in the nuclear asset-recovery bond pricing process, thereby promoting the integrity of the issuance process. In this regard, this Commission's financial advisor needs to be an active and visible participant in the actual pricing process in real time if we are to obtain maximum benefits for ratepayers.

92. Subject to Finding of Fact paragraph 50 and Ordering Paragraph 67, the Bond Team shall oversee the development of the competitive solicitation and selection of some or all underwriters, underwriters' counsel, trustee services and other transaction arrangements as deemed appropriate by the Bond Team, other than DEF's counsel and issuer's counsel, to ensure that the processes are competitive, will provide the greatest value for customers, and will result in the selection of transaction participants that have experience and the ability to achieve the lowest overall cost standard.

93. Subject to Finding of Fact paragraph 50 and Ordering Paragraph 67, the Bond Team shall review the nuclear asset-recovery bond transaction documents to ensure that the lowest overall cost standard is achieved, to ensure that the transaction documents reflect the terms of this Financing Order and to ensure that the greatest possible customer protections are included. All legal opinions related to the nuclear asset-recovery bond transaction shall be provided to the Bond Team for review.

94. The Bond Team shall have the opportunity to review the presentations to the rating agencies and to make recommendations in furtherance of achieving the lowest overall cost standard; provided, however, that DEF shall be the sole decision maker in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds that, in the sole view of

DEF would expose DEF or the SPE to securities law or other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriting agreement(s).

95. The Bond Team shall work on a cooperative basis (a) to educate and expand the market among underwriters and investors for the nuclear asset-recovery bonds and (b) to create the greatest possible participation and competition among underwriters and investors in order to ensure that the statutory cost objectives and the lowest overall cost standard are achieved.

96. DEF asserts that it will have primary securities law liability with respect to the transaction. DEF should be the sole decision maker in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds that, in the sole view of DEF would expose DEF or the SPE to securities law or other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriting agreement(s)).

97. No later than 5:00 p.m. Eastern time on the second business day following pricing, this Commission's financial advisor shall deliver to this Commission an opinion letter consistent with the terms of its contract as to whether the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest nuclear asset-recovery charges consistent with prevailing market conditions at the time of pricing, terms and conditions and terms of this Financing Order, and other applicable law; and (3) the greatest possible customer protections. That opinion letter shall include a report of any action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, The report of any such action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability, shall be treated as a material qualification to the opinion letter of this Commission's financial advisor. Such opinion letter may be provided to this Commission on a confidential basis subject to the ability of parties to this proceeding to review it on a confidential basis.

XII. ISSUANCE ADVICE LETTER PROCEDURE

98. DEF shall file with this Commission a draft of an Issuance Advice Letter ("IAL") and Form of True-Up Adjustment Letter ("TUAL") (combined into one document) in the form of Appendix C hereto at least two weeks prior to the expected pricing of the nuclear asset-recovery

bonds based upon the best information available at that time. Other aspects of the certifications may be modified to describe the particulars of the nuclear asset-recovery bonds and the actions that were taken during the transaction. Such draft shall include drafts of any certifications of DEF to be provided in connection with the filing of the final IAL/TUAL. Such certifications may be provided to this Commission on a confidential basis. Within one week of receiving the proposed form of combined IAL/TUAL, the members of the Bond Team representing this Commission shall provide comments and recommendations to DEF regarding the adequacy of information proposed to be provided. This Commission, acting directly, or though this Commission's staff designee, may agree to waive the prescribed time period for submission and review of the draft IAL/TUAL and any failure to provide written comments to the draft IAL/TUAL within the prescribed time period will conclusively evidence a waiver of any objections. Prior to the submission of the first draft of the IAL/TUAL and through the period ending with the issuance of the nuclear asset-recovery bonds, DEF will provide the Bond Team with timely information so that this Commission's representatives on the Bond Team can participate fully and in advance regarding all aspects relating to the structuring, marketing and pricing of the nuclear asset-recovery bonds.

99. DEF shall file a combined IAL/TUAL in final form with this Commission no later than 5:00 pm Eastern time one business day after actual pricing at which time a meeting will be noticed for three business days after pricing to afford this Commission an opportunity to review the proposed transaction. As shown in the form of IAL/TUAL in Appendix C, the combined IAL/TUAL shall include the following information: the actual structure of the nuclear asset-recovery bond issuance; the expected and final maturities of the nuclear asset-recovery bonds; over-collateralization levels (if any); any other credit enhancements; revised estimates of the upfront bond issuance costs proposed to be financed from proceeds of the nuclear asset-recovery bonds and estimates of debt service and other ongoing financing costs for the first Remittance Period; a statement of the actions taken by the Bond Team and/or DEF in the marketing of the bonds; a comparison of the pricing relative to an independent benchmark versus other similar securities historically and at the time of pricing; the amount of orders received and investors that placed the orders (on a confidential basis); and other information deemed necessary by the members of the Bond Team representing this Commission after review of the draft combined IAL/ITUAL, provided that such other information is consistent with the terms of this Financing Order; and a statement setting forth DEF's observations as to efforts made to assist the Bond Team in achieving the lowest overall cost standard. Finally, the combined IAL/TUAL shall include certifications from DEF if required, that the structuring, pricing and financing costs of the nuclear asset-recovery bonds achieved the statutory cost objectives.

100. The opinion letter from this Commission's financial advisor required pursuant to Finding of Fact paragraph 97 should be provided no later than 5:00 p.m. on the second business day after pricing. The members of the Bond Team will review this information on the second business day after pricing. If the IAL/TUAL and all required certifications and statements have been delivered and the transaction complies with applicable law and this Financing Order, and if this Commission's financial advisor has delivered an opinion letter pursuant to Finding of Fact paragraph 97 concluding without material qualification that the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the

lowest overall cost standard; and (3) the greatest possible customer protections, then the transaction shall be allowed to proceed without the need for further action of this Commission and without the need to hold the previously noticed Commission meeting. If, however, this Commission's financial advisor has delivered an opinion letter that contains material qualifications, or if the Commission's financial advisor has not delivered an opinion letter, then at the meeting previously noticed for the third business day after pricing, the members of the Bond Team will present to this Commission the results of their review. Despite there being material qualifications in the opinion letter from the Commission's financial advisor, this Commission retains discretion to allow the transaction to be completed if, after taking into account the opinion letter, if any, of the Commission's financial advisor, the views of other members of the Bond Team, and any other facts and circumstances, except for a change in market conditions after the moment of pricing, this Commission determines that the requirements of Section 366.95, F.S., and the Financing Order have been satisfied, and the transaction is otherwise in the best interests of customers. This Commission expects that any stop order will invite DEF to restructure, remarket and/or reprice the nuclear asset-recovery bonds so as to mitigate some or all of the concerns identified in the opinion letter of the Commission's financial advisor.

101. No adjustment is necessary for the deferred tax liability. However, consistent with paragraph 5(j) of the RRSSA, the deferred tax liability will be excluded for earnings surveillance purposes.

102. The Issuance Advice Letter process described above is reasonable and consistent with the statutory financing cost objective contained in Section 366.95(2)(c)2.b., F.S.

103. DEF will retain sole discretion regarding whether or when to assign, sell or otherwise transfer any rights concerning nuclear asset-recovery property arising under this Financing Order, or to cause the issuance of any nuclear asset-recovery bonds authorized in this Financing Order; *provided*, that any issuance must satisfy the statutory financing cost objective. Subject to the Issuance Advice Letter procedures described above, SPE will issue the nuclear asset-recovery bonds on or after the fifth business day after pricing of the nuclear asset-recovery bonds.

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CONCLUSIONS OF LAW

I. JURISDICTION

1. We have jurisdiction over this matter pursuant to Chapter 366, F.S., including Sections 366.04, 366.05, 366.06, and 366.95, F.S.

II. STATUTORY REQUIREMENTS

2. Based on the statutory criteria and procedures, the record in this proceeding, and other provisions of this Financing Order, the statutory requirements for issuance of a financing order have been met, specifically that the issuance of the nuclear asset-recovery bonds and the imposition of nuclear asset-recovery charges authorized by this Financing Order have a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs.

III. NUCLEAR ASSET-RECOVERY BONDS

3. Each SPE will be an "assignee" as defined in Section 366.95(1)(b), F.S., when an interest in nuclear asset-recovery property is transferred, other than as security, to that SPE.

4. The holders of nuclear asset-recovery bonds, the indenture trustee, any collateral agent, and the counterparty to any hedging contract, interest rate lock contract, interest rate swap contract or other ancillary agreement in respect of some or all of the nuclear asset-recovery bonds will each be a "financing party" as defined in Section 366.95(1)(g), F.S.

5. Each SPE may issue nuclear asset-recovery bonds in accordance with this Financing Order.

6. As provided in Section 366.95, F.S., the rights and interests of DEF or its successor or assignees under this Financing Order, including the right to impose, bill, collect, and receive the nuclear asset-recovery charges authorized in this Financing Order, are assignable and become nuclear asset-recovery property when the nuclear asset-recovery property is transferred to an SPE.

7. The rights, interests, and property conveyed to an SPE in the Nuclear Asset-Recovery Property Purchase and Sale Agreement and the related Bill of Sale, including without limitation the irrevocable right to impose, bill, collect, and receive the nuclear asset-recovery charges and the revenues and collections from the nuclear asset-recovery charges are "nuclear asset-recovery property" within the meaning of Section 366.95, F.S.

8. All revenues and collections resulting from the nuclear asset-recovery charges will constitute proceeds only of the nuclear asset-recovery property arising from this Financing Order.

9. Upon the transfer by DEF of the nuclear asset-recovery property to an SPE, that SPE will have all of the rights, title and interest of DEF with respect to such nuclear asset-recovery property, including the right to impose, bill, collect, and receive the nuclear asset-recovery charge authorized by this Financing Order.

10. The nuclear asset-recovery bonds issued pursuant to this Financing Order will be "nuclear asset-recovery bonds" within the meaning of Section 366.95(1)(i), F.S., and the nuclear asset-recovery bonds and holders thereof will be entitled to all of the protections provided under Section 366.95, F.S.

11. Pursuant to Section 366.95(2)(c)2.d. and (2)(c)4., F.S., the servicer of the nuclear asset-recovery property will file for standard true-up adjustments to the nuclear asset-recovery charges at least every six months to ensure the recovery of revenues are sufficient to provide for the timely payment of the principal of and interest on the nuclear asset-recovery bonds and of all of the ongoing financing costs payable by the SPE in respect of nuclear asset-recovery bonds as approved under this Financing Order. We conclude that these true-up adjustments, together with the State Pledge, will Guarantee the timely payment of nuclear asset-recovery bonds.

12. The methodology approved in this Financing Order to true-up the nuclear asset-recovery charges satisfies the requirements of Section 366.95, F.S. In implementing the formula-based True-Up Mechanism for making expeditious periodic adjustments in the nuclear asset-recovery charges pursuant to Section 366.95(2)(c)1.d., F.S., the nuclear asset-recovery charge shall be adjusted as necessary to Guarantee the timely payment of (a) nuclear asset recovery costs, (b) financing costs, and (c) other required amounts and charges payable in connection with the nuclear asset-recovery bonds.

13. For so long as nuclear asset-recovery bonds are outstanding and the related nuclear asset-recovery costs and financing costs have not been paid in full, the nuclear asset-recovery charges authorized in this Financing Order to be imposed and collected are "nonbypassable" pursuant to Sections 366.95(11)(b)1. and 366.95(2)(c)2.c., F.S. — that is, the nuclear asset-recovery charges shall be paid by all existing and future customers receiving electric transmission or distribution service from DEF or its successors or assignees under Commission-approved rate schedules or under special contracts, even if the customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in the State of Florida.

14. If and when DEF transfers to an SPE the right to impose, bill, collect, and receive the nuclear asset-recovery charge and to issue nuclear asset-recovery bonds, the servicer will be entitled to recover the nuclear asset-recovery charge associated with such nuclear asset-recovery property only for the benefit of that SPE and the holders of the nuclear asset-recovery bonds in accordance with the Servicing Agreement.

15. The issuance of nuclear asset-recovery bonds does not directly, indirectly, or contingently obligate the state or any agency, political subdivision, or instrumentality of the state to levy any tax or make any appropriation for payment of the nuclear asset-recovery bonds, other than in their capacity as consumers of electricity.

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IV. NUCLEAR ASSET-RECOVERY PROPERTY

16. Nuclear asset-recovery property is not a receivable or a pool of receivables. Rather, nuclear asset-recovery property consists of: (1) all rights and interests of DEF or any successor or assignee of DEF under this Financing Order, including the right to impose, bill, collect, and receive nuclear asset-recovery charges authorized in this Financing Order and to obtain periodic adjustments to such nuclear asset-recovery charges as provided in this Financing Order, and (2) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in clause (1), regardless of whether such revenues, collections, claims, rights to payment, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money, or proceeds.

17. Nuclear asset-recovery property is not a financial asset in that it only represents a legally-enforceable regulatory property right under Section 366.95 to bill and collect nuclear asset-recovery charges from persons who receive electric transmission and distribution services from the electric utility or its successors or assignees.

18. The creation of nuclear asset-recovery property pursuant to this Financing Order is conditioned upon, and shall be simultaneous with, the sale or other transfer of the nuclear asset-recovery property to the SPE and the pledge of the nuclear asset-recovery property to secure nuclear asset-recovery bonds.

19. The nuclear asset-recovery property shall constitute an existing, present property right or interest therein, notwithstanding that the imposition and collection of nuclear asset-recovery charges depends on DEF performing its servicing functions relating to the collection of nuclear asset-recovery charges and on future electricity consumption. Such property shall exist regardless of whether the revenues or proceeds arising from the property have been billed, have accrued, or have been collected and notwithstanding the fact that the value or amount of the property is dependent on the future provision of service to customers by DEF or its successors or assignees.

20. The nuclear asset-recovery property shall continue to exist until the nuclear asset-recovery bonds are paid in full and all financing costs and other costs of the nuclear asset-recovery bonds have been recovered in full.

21. The nuclear asset-recovery property constitutes a present property right for purposes of contracts concerning the sale or pledge of property. The interest of a transferee, purchaser, acquirer, assignee, or pledgee in the nuclear asset-recovery property, and in the revenue and collections arising from that property, is not subject to setoff, counterclaim, surcharge, or defense by DEF or any other person or in connection with the reorganization, bankruptcy, or other insolvency of DEF or any other entity. Section 366.95(5)(a)(5), F.S.

22. The creation, attachment, granting, perfection, priority and enforcement of liens and security interests in nuclear asset-recovery property are governed by Section 366.95(5)(b), F.S.

23. Pursuant to Section 366.95(5)(b)5., F.S., the priority of any lien and security interest in the nuclear asset-recovery property arising from this Financing Order shall not be considered impaired by any later modification of this Financing Order or nuclear asset-recovery property or by the commingling of the funds arising from nuclear asset-recovery property with any other funds.

24. When DEF transfers nuclear asset-recovery property to an SPE pursuant to this Financing Order under an agreement that expressly states that the transfer is a sale or other absolute transfer in accordance with the "absolute transfer" provisions of Section 366.95(5)(c), F.S., that transfer shall constitute an absolute transfer and true sale and not a secured transaction or other financing arrangement, and title (both legal and equitable) to the nuclear asset-recovery property shall immediately pass to the SPE. After such a transfer, the nuclear asset-recovery property shall not be subject to any claims of DEF or its creditors, other than creditors holding a properly perfected prior security interest in the nuclear asset-recovery property perfected under Section 366.95, F.S.. As provided by Section 366.95(5)(c)2., F.S., the characterization of the sale, conveyance, assignment, or transfer of nuclear asset-recovery property as a true sale or other absolute transfer and the corresponding characterization of the transferee's property interest shall not be affected by: (1) commingling of amounts arising with respect to the nuclear asset-recovery property with other amounts; (2) the retention by DEF of a partial or residual interest, including an equity interest, in the nuclear asset-recovery property, whether direct or indirect, or whether subordinate or otherwise; (3) any recourse that the transferee may have against DEF other than any such recourse created, contingent upon, or otherwise occurring or resulting from one or more of DEF's customers' inability to timely pay all or a portion of the nuclear asset-recovery charge; (4) any indemnification, obligations, or repurchase rights made or provided by DEF, other than indemnity or repurchase rights based solely upon DEF's customers' inability or failure to timely pay all or a portion of the nuclear asset-recovery charge; (5) the responsibility of DEF to collect nuclear asset-recovery charges; (6) the treatment of the sale, conveyance, assignment, or other transfer for tax, financial reporting, or other purposes; or (7) granting or providing to holders of the nuclear asset-recovery bonds a preferred right to the nuclear asset-recovery property or credit enhancement by DEF or its affiliates with respect to the nuclear asset-recovery bonds.

25. If DEF defaults on any required remittance of amounts collected in respect of nuclear asset-recovery property specified in this Financing Order, a court, upon application by an interested party, and without limiting any other remedies available to the applying party, shall order the sequestration and payment of the revenues arising from the nuclear asset-recovery property to the other financing parties. Any such order shall remain in full force and effect notwithstanding any reorganization, bankruptcy, or other insolvency proceedings with respect to DEF or its successors or assignees.

V. STATE PLEDGE

26. In Section 366.95(11)(b), F.S., the State pledges to and agrees with the Bondholders, the owners of the nuclear asset-recovery property, and other financing parties that the State will not:

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a. Alter the provisions of Section 366.95, F.S., which make the nuclear asset-recovery charges imposed by this Financing Order irrevocable, binding, and nonbypassable charges;

b. 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

c. Except as allowed under Section 366.95, F.S., 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. This Commission finds that this State Pledge will constitute a contract with the Bondholders, the owners of nuclear asset-recovery property, and other financing parties.

27. Nothing in the State Pledge described in the preceding paragraph precludes limitation or alterations if full compensation is made by law for the full protection of the nuclear asset-recovery charges collected pursuant to this Financing Order and of the holders of nuclear asset-recovery bonds and any assignee or financing party entering into a contract with DEF. Section 366.95(11), F.S.

28. The broad nature of the State pledge under Section 366.95(11), F.S., constitutes a contract with the Bondholders, the owners of nuclear asset-recovery property, and other financing parties that the State will not: (1) alter the provisions of this Section 366.95 which make the nuclear asset-recovery charges imposed by this Financing Order irrevocable, binding, and nonbypassable 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 Section 366.95, reduce, alter, or impair nuclear asset-recovery charges that are to be imposed, collected, and remitted for the benefit of the owners of DEF's nuclear asset-recovery bonds 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.

VI. EFFECT OF THIS ORDER

29. Having issued this Financing Order, this Commission does not, in exercising its powers and carrying out its duties, consider the nuclear asset-recovery bonds to be the debt of DEF other than for federal income tax purposes, consider the nuclear asset-recovery charges paid under this Financing Order to be the revenue of DEF for any purpose, or consider the nuclear asset-recovery costs or financing costs specified in this Financing Order to be the costs of DEF, nor may this Commission determine any action taken by DEF which is consistent with this Financing Order to be unjust or unreasonable.

30. Upon the issuance of nuclear asset-recovery bonds authorized hereby, this Commission's obligations under this Financing Order relating to the nuclear asset-recovery

bonds, including the specific actions this Commission guarantees to take, are direct, explicit, irrevocable, and unconditional, and are legally enforceable against this Commission, a United States public sector entity.

31. Pursuant to Section 366.95(2)(c)6., subsequent to the earlier of the transfer of nuclear asset-recovery property to SPE or the issuance of nuclear asset-recovery bonds authorized hereby, this Financing Order is irrevocable and, except as provided in Section 366.95(2)(c)4. and (2)(d), F.S., this Commission may not amend, modify, or terminate this Financing Order by any subsequent action or reduce, impair, postpone, terminate, or otherwise adjust nuclear asset-recovery charges approved herein.

32. As provided in Section 366.95(2)(c)6., F.S., DEF retains sole discretion regarding whether to assign, sell, or otherwise transfer nuclear asset-recovery property or to cause the nuclear asset-recovery bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance.

33. After the issuance of a Financing Order, if DEF decides not to cause nuclear asset-recovery bonds to be issued, then as provided in Section 366.95(2)(c)6., F.S., DEF may not recover financing costs, as defined in Section 366.95(1)(e), F.S., from customers.

34. The electric bills of DEF must explicitly reflect that a portion of the charges on such bill represents nuclear asset-recovery charges approved in this Financing Order and must include a statement to the effect that the SPE is the owner of the rights to nuclear asset-recovery charges and that DEF is acting as a servicer for the SPE. The tariff applicable to customers must indicate the nuclear asset-recovery charge and the ownership of that charge. Any failure of DEF to comply with this paragraph shall not invalidate, impair, or affect this Financing Order, or any nuclear asset-recovery property, nuclear asset-recovery charge, or nuclear asset-recovery bonds, but shall subject DEF to penalties under Section 366.095, F.S.

35. This Financing Order and the nuclear asset-recovery charges authorized hereby shall remain in effect until the nuclear asset-recovery bonds have been paid in full and this Commission-approved financing costs have been recovered in full, provided that the charges may not be imposed after a date the close of the last billing cycle for the 276th month from the inception of the nuclear asset-recovery charge. This Financing Order shall remain in effect and unabated notwithstanding the reorganization, bankruptcy, or other insolvency proceedings of DEF or its successors or assignees. Any successor to DEF, whether pursuant to any reorganization, bankruptcy, or other insolvency proceeding or whether pursuant to any merger or acquisition, sale, or other business combination, or transfer by operation of law, as a result of electric utility restructuring or otherwise, shall perform and satisfy all obligations of, and have the same rights under this Financing Order as, DEF in the same manner and to the same extent as DEF, including collecting and paying to the person entitled to receive the revenues, collections, payments, or proceeds of the nuclear asset-recovery property.

36. All tasks performed by any consultant or counsel at the request of this Commission or Commission staff pursuant to this Financing Order shall be treated as performed for the purpose of assisting or enabling this Commission to perform the responsibilities of

Sections 366.95(2)(c)2. and 366.95(2)(c)5., F.S., and any expenses incurred in connection with those services, to the extent such expenses are eligible for compensation and approved for payment under the terms of such party's contractual arrangements with this Commission (which may be modified by any amendment entered into at this Commission's sole discretion), shall be treated as "financing costs" for purposes of determining nuclear asset-recovery charges.

37. This Commission, acting on its own behalf, has authority to enforce all provisions of this Financing Order and all provisions of the nuclear asset-recovery bond transaction documents for the benefit of customers, including without limitation the enforcement of any customer indemnification provisions in connection with specified items in the Servicing Agreement, the Indenture, and the Nuclear Asset-Recovery Property Purchase and Sale Agreement.

38. The authority granted by this Financing Order to issue nuclear asset-recovery bonds is severable from, and not impacted by, the actions or inactions of this Commission or other bodies with respect to this Commission's determination of the extent to which the nuclear asset-recovery charges shall be recoverable from any person or entity or from any particular group, class, or type of customer.

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ORDERING PARAGRAPHS

Based on the foregoing, it is

1. ORDERED by the Florida Public Service Commission that the proposed process for structuring, marketing, and pricing of the nuclear asset-recovery bonds has a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs and is approved. It is further

2. ORDERED that DEF's Petition for a Financing Order authorizing the issuance of nuclear asset-recovery bonds in one or more series is granted, subject to the terms set forth in the body of this Financing Order. DEF is hereby authorized to issue nuclear asset-recovery bonds secured by the pledge of nuclear asset-recovery property, in one or more series in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the nuclear asset-recovery bonds are issued). The proceeds are to be used to finance the equivalent of (i) recovery of nuclear asset-recovery costs, in the form of the CR3 Regulatory Asset as determined pursuant to Docket No. 150148-EI plus (ii) recovery of the estimated upfront bond issuance costs associated with the issuance of the nuclear asset-recovery bonds plus (iii) carrying charges accruing at 6.0% per annum on the CR3 Regulatory Asset balance from December 31, 2015 through the date of issuance of the nuclear asset-recovery bonds. Upfront bond issuance costs are subject to update, adjustment and approval pursuant to the terms of this Financing Order and the Issuance Advice Letter procedures as provided by this Financing Order. It is further

3. ORDERED that DEF is authorized to impose, bill, collect, and adjust from time to time (as described in this Financing Order) a nuclear asset-recovery charge, to be collected on a per kWh basis from all applicable customer rate classes until the nuclear asset-recovery bonds are paid in full and all financing costs and other costs of the bonds have been recovered in full, provided that the charges shall not be imposed following a date which is the close of the last billing cycle for the 276th month from the inception of the nuclear asset-recovery charge. Such nuclear asset-recovery charges shall be in amounts sufficient to ensure the timely recovery of DEF's nuclear asset-recovery costs and financing costs (upfront and ongoing) detailed in this Financing Order (including payment of principal of and interest on the nuclear asset-recovery bonds). Although DEF might incur liability if there is a failure of its representations, warranties, or covenants in the Sale Agreement, the Servicing Agreement, or the Administration Agreement, or if DEF negligently, willfully, or in bad faith fails to perform its duties under any of those agreements, this provision is not intended to establish DEF as a guarantor of payments on the nuclear asset-recovery bonds. It is further

4. ORDERED that the creation of nuclear asset-recovery property as described in this Financing Order is approved and, upon transfer of the nuclear asset-recovery property to an SPE, shall be created, and shall consist of: (1) all rights and interests of DEF or successor or assignee of DEF under this Financing Order, including the right to impose, bill, collect, and receive nuclear asset-recovery charges authorized in this Financing Order and to obtain periodic adjustments to such charges as provided in this Financing Order, and (2) all revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and

interests specified in clause (1), regardless of whether such revenues, collections, claims, rights to payment, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money, or proceeds. The creation of nuclear asset-recovery property is conditioned upon, and shall be simultaneous with, the sale or other transfer of the nuclear asset-recovery property to an SPE and the pledge of the nuclear asset-recovery property to secure nuclear asset-recovery bonds. The nuclear asset-recovery property shall continue to exist until the nuclear asset-recovery bonds are paid in full and all financing costs and other costs of the nuclear asset-recovery bonds have been recovered in full. For the period specified in the preceding sentence, the imposition and collection of nuclear asset-recovery charges authorized in this Financing Order shall be paid by all existing and future customers receiving transmission or distribution service from DEF or its successors or assignees under Commission-approved rate schedules or under special contracts, even if the customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation of public utilities in Florida. In the event that there is a fundamental change in the regulation of public utilities, the nuclear asset-recovery charge shall be collected in a manner that will not cause any of the then current credit ratings of the nuclear asset-recovery bonds to be suspended, withdrawn or downgraded. It is further

5. ORDERED that prior to implementing the initial nuclear asset-recovery charges, DEF shall file tariff sheets for administrative approval, which tariff sheets will be administratively approved by Commission staff within three (3) business days, subject to correction for any mathematical error. At staff's request, DEF shall furnish draft tariff sheets at least five (5) business days in advance of the public offering of nuclear asset-recovery bonds. It is further

6. ORDERED that the nuclear asset-recovery charge shall be allocated to the customer rate classes in accordance with the allocation methodology adopted in the RRSSA approved on November 12, 2013 in Order No. PSC-13-0598-FOF-EI. It is further

7. ORDERED that the approved allocation methodology for DEF is the 12CP and 1/13 AD. Spelled out, that means twelve-thirteenths of the revenue requirement is allocated based on 12 monthly coincident peaks (or demand) and one-thirteenth is allocated based on average demand (or energy). It is further

8. ORDERED that the electric bills of DEF must explicitly reflect that a portion of the charges on such bill represents nuclear asset-recovery charges approved in this Financing Order and must include a statement to the effect that the SPE is the owner of the rights to nuclear asset-recovery charges and that DEF is acting as a servicer for that SPE. The tariff applicable to customers must indicate the nuclear asset-recovery charge and the ownership of that charge. DEF shall identify amounts owed with respect to the nuclear asset-recovery property as a separate line item on individual electric bills. The failure of DEF to comply with this paragraph shall not invalidate, impair, or affect any financing order, nuclear asset-recovery property, nuclear asset-recovery charge, or nuclear asset-recovery bonds but shall subject DEF to penalties under Section 366.095, F.S. It is further

9. ORDERED that this Financing Order and the charges authorized hereby shall remain in effect until the nuclear asset-recovery bonds and all financing costs (including tax liabilities) related thereto have been paid or recovered in full. This Financing Order shall remain in effect and unabated notwithstanding the reorganization, bankruptcy, or other insolvency proceedings of DEF or its successors or assignees. Any successor to DEF, whether pursuant to any reorganization, bankruptcy, or other insolvency proceeding or whether pursuant to any merger or acquisition, sale, or other business combination, or transfer by operation of law, as a result of electric utility restructuring or otherwise, shall perform and satisfy all obligations of, and have the same rights under this Financing Order as, DEF in the same manner and to the same extent as DEF, including collecting and paying to the person entitled to receive the revenues, collections, payments, or proceeds of the nuclear asset-recovery property. It is further

10. ORDERED that the SPE issuing nuclear asset-recovery bonds is authorized, pursuant to Section 366.95(11)(c), F.S., and this Financing Order, to include the State of Florida pledge with respect to nuclear asset-recovery property and nuclear asset-recovery charges in the bonds and related documentation as provided for in Section 366.95(11)(b), F.S. It is further

11. ORDERED that the proposed Transaction Structure for the nuclear asset-recovery bonds is approved as set forth in the body of this Financing Order. It is further

12. ORDERED that DEF is authorized to sell the nuclear asset-recovery property to an SPE,, or to more than one SPE if separate SPEs are required by the rating agencies to achieve the highest possible credit ratings. It is further

13. ORDERED that, in accordance with the terms of this Financing Order and subject to the criteria and procedures described herein, the SPE(s) are authorized to issue nuclear asset-recovery bonds in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the nuclear asset-recovery bonds are issued) and may pledge to an indenture trustee, as collateral for payment of the nuclear asset-recovery bonds, the nuclear asset-recovery property, including the SPE's right to receive the related nuclear asset-recovery charges as and when collected, the SPE's rights under the Servicing Agreement and other collateral described in the Indenture. As provided in Section 366.95(2)(c)6., F.S., DEF retains sole discretion regarding whether to assign, sell, or otherwise transfer nuclear asset-recovery property or to cause the nuclear asset-recovery bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance. It is further

14. ORDERED that after the issuance of a Financing Order, if DEF decides not to cause nuclear asset-recovery bonds to be issued, then as provided in Section 366.95(2)(c)6., F.S., DEF may not recover financing costs, as defined in Section 366.95(1)(e), F.S., from customers. It is further

15. ORDERED that, pursuant to Section 366.95(3)(b), F.S., if DEF elects not to use nuclear asset-recovery bonds to finance its nuclear asset-recovery costs after the issuance of this Financing Order, DEF may seek to recover such nuclear asset-recovery costs in an otherwise permissible fashion. It is further

16. ORDERED that DEF shall be responsible to structure the nuclear asset-recovery bond transaction in a way that complies with the "safe harbor" provisions of IRS Revenue Procedure 2005-62. It is further

17. ORDERED that DEF is authorized to form an SPE to be structured as discussed in this Financing Order, or more than one SPE if separate SPEs are required by the rating agencies to achieve the highest possible credit ratings. DEF is authorized to execute one or more LLC Agreements, consistent with the terms and conditions of this Financing Order. Each SPE shall be funded with an amount of capital that is sufficient for the SPE to carry out its intended functions as contemplated in the Petition and this Financing Order. The capital contribution by DEF to the SPE shall be funded by DEF and not from the proceeds of the sale of nuclear asset-recovery bonds. DEF shall be permitted to earn a rate of return on its invested capital in the SPE equal to the rate of interest payable on the longest maturing tranche of nuclear asset-recovery bonds, and this return on invested capital shall be a component of the Periodic Payment Requirement. It is further

18. ORDERED that DEF is authorized to enter into one or more Nuclear Asset-Recovery Property Purchase and Sale Agreements, Administration Agreements, and Nuclear Asset-Recovery Property Servicing Agreements and other transaction documents contemplated by such agreements. It is further

19. ORDERED that nuclear asset-recovery bonds may be issued in one or more series, each series with one or more tranches. Each SPE is authorized to enter into one or more Indentures, consistent with the terms and conditions of this Financing Order, provided that DEF shall not create more than one SPE unless separate SPEs are required by the rating agencies to achieve the highest possible credit ratings. Subject to compliance with the requirements of this Financing Order, DEF and each SPE shall be afforded flexibility in establishing the terms and conditions of the nuclear asset-recovery bonds, repayment schedules, term, debt service payment dates, collateral, redemption provisions, credit enhancement, required debt service, reserves, interest rates, indices and other financing costs. DEF may utilize floating rate securities and interest rate swaps if, pursuant to the process set forth in Finding of Fact paragraphs 42 through 50 it is determined that their use will achieve the lowest overall cost standard. It is further

20. ORDERED that we approve the true-up adjustment process described in the body of this Financing Order and in the testimony of DEF's witnesses. It is further

21. ORDERED that DEF or its assignee is authorized to recover the Periodic Payment Requirement and shall file with this Commission at least every six months (and at least every three months after the last scheduled debt service payment date of the nuclear asset-recovery bonds) a True-Up Adjustment Letter as described in this Financing Order. It is further

22. ORDERED that we hereby authorize the use of the formula-based True-Up Mechanism approved in the body of this Financing Order to compute and adjust from time to time the nuclear asset-recovery charge. It is further

23. ORDERED that the True-Up Mechanism identified in Appendix B to this Financing Order is reasonable and shall be applied at least every six months (and at least quarterly after the last scheduled debt service payment date of the nuclear asset-recovery bonds). It is further

24. ORDERED that DEF as servicer, and any successor servicer, shall file True-Up Adjustment Letters (as described in the body of this Financing Order) at least every six months (and at least quarterly after the last scheduled debt service payment date of the nuclear asset-recovery bonds) consistent with Section 366.95(2)(c)4., F.S., and as frequently as necessary as required in the Servicing Agreement. It is further

25. ORDERED that any True-Up Adjustment Letter shall be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement and the actual and expected amount of nuclear asset-recovery charge remittances to the indenture trustee for the series of nuclear asset-recovery bonds during the Remittance Period. It is further

26. ORDERED upon the filing of a True-Up Adjustment Letter made pursuant to this Financing Order, Commission staff shall either administratively approve the requested true-up calculation in writing or inform the servicer of any mathematical errors in its calculation as expeditiously as possible but no later than 60 days following the servicer's true-up filing. Notification and correction of any mathematical errors shall be made so that the true-up is implemented within 60 days of the servicer's true-up filing. If no action is taken within 60 days of the true-up filing, the true-up calculation shall be deemed approved. Upon administrative approval or the passage of 60 days without notification of a mathematical error, no further action of this Commission will be required prior to implementation of the true-up. It is further

27. ORDERED that in addition to the semi-annual true-up adjustment, DEF, as servicer (or a successor servicer) is hereby authorized to make optional interim true-up adjustments at any time for any reason to ensure timely payment of the Periodic Payment Requirement, which adjustment shall be implemented based upon the same time frames as the semi-annual true-ups. It is further

28. ORDERED that upon any change to customer rates and charges stemming from these procedures, DEF shall file appropriately-revised tariff sheets with this Commission, provided, however, that approval of the nuclear asset-recovery charges shall not be delayed or otherwise adversely impacted by this Commission's decision with respect to the tariff. It is further

29. ORDERED that the method of assignment and allocation of nuclear asset-recovery charge collections set forth in the body of this Financing Order is approved. It is further

30. ORDERED that the form of the tariff schedule as shown in Exhibit 32 is approved. It is further

31. ORDERED that, in accordance with Section 366.95(2)(c)5., F.S., within 120 days after the issuance of nuclear asset-recovery bonds, DEF shall file with this Commission supporting information on the actual upfront bond issuance costs, for the categories of costs as reflected in Exhibit 79. This Commission shall review such costs to determine compliance with Section 366.95(2)(c)5., F.S. As part of this review, this Commission shall only consider actual upfront bond issuance costs, but not ongoing financing costs, interest rate, or pricing of the bonds. This Commission may not make adjustments to the nuclear asset-recovery charges as a result of this review. DEF shall pay the fee of any Commission financial advisor (and any consultants and legal counsel) who assist this Commission in performing its responsibilities under Section 366.95(2)(c)2. and 5., F.S., as upfront bond issuance costs, and such costs are deemed consistent with the statutory cost objectives and the lowest overall cost standard. It is further

32. ORDERED that if the actual upfront bond issuance costs are in excess of the amount appearing in the final Issuance Advice Letter filed within one business day after actual pricing of the nuclear asset-recovery bonds, this Commission authorizes DEF to collect such excess amounts through the capacity cost recovery clause, if prudently incurred. It is further

33. ORDERED that if the actual upfront bond issuance costs are less than the amount appearing in the final Issuance Advice Letter filed within one business day after actual pricing of the nuclear asset-recovery bonds, the difference shall be deposited to the Collection Account and used to reduce the next Periodic Payment Requirement. It is further

34. ORDERED that this Commission authorizes DEF to enter into a Servicing Agreement with each SPE and to perform the servicing duties approved in this Financing Order. Without limiting the foregoing, in its capacity as initial servicer of the nuclear asset-recovery property, DEF is authorized to calculate, bill, collect and receive for the account of each SPE, the nuclear asset-recovery charges initially authorized in this Financing Order, as adjusted from time to time to meet the Periodic Payment Requirement as provided in this Financing Order; and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the true-ups described in this Financing Order. The servicer shall be entitled to collect servicing fees in accordance with the provisions of the Servicing Agreement, provided that (i) the annual servicing fee payable to DEF while it is serving as servicer (or to any other servicer affiliated with DEF) shall be 0.05 percent of the original principal amount of the series of nuclear asset-recovery bonds. The annual servicing fee payable to any other servicer not affiliated with DEF shall not at any time exceed 0.60 percent of the original principal amount of the series of nuclear asset-recovery bonds, unless such higher rate is approved by this Commission pursuant to the following Ordering Paragraph. It is further

35. ORDERED that upon the occurrence of an event of default under the Servicing Agreement relating to the servicer's performance of its servicing functions with respect to the nuclear asset-recovery charges, the indenture trustee may, and upon the instruction of the requisite holders of the outstanding nuclear asset-recovery bonds shall, replace DEF as the servicer in accordance with the terms of the Servicing Agreement. If the servicing fee of the replacement servicer will exceed the applicable maximum servicing fee specified in the preceding Ordering Paragraphs, the replacement servicer shall not begin providing service until (i) the date this Commission approves the appointment of such replacement servicer or (ii) if this Commission does not act to either approve or disapprove the appointment, the date which is 45 days after notice of appointment of the replacement servicer is provided to this Commission. It is further

36. ORDERED that no entity shall replace DEF as the servicer in any of its servicing functions with respect to the nuclear asset-recovery charges and the nuclear asset-recovery property authorized by this Financing Order, if the replacement would cause any of the then current credit ratings of the nuclear asset-recovery bonds to be suspended, withdrawn, or downgraded. It is further

37. ORDERED that the parties to the Nuclear Asset-Recovery Property Servicing Agreement, Administration Agreement, Indenture, and Nuclear Asset-Recovery Property Purchase and Sale Agreement may amend the terms of such agreements solely in accordance with the terms of such agreements. It is further

38. ORDERED that DEF, its structuring advisor, and designated Commission staff and its financial advisor shall serve on the Bond Team. It is further

39. ORDERED that one designated representative of DEF and one designated representative of this Commission shall be joint decision makers in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds except for those recommendations that in the sole view of DEF would expose DEF or the SPE to securities law and other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriter agreement(s)). It is further

40. ORDERED that this Commission's designated staff and financial advisor shall be visibly involved, in advance, in all aspects of the structuring, marketing, and pricing of the nuclear asset-recovery bonds. It is further

41. ORDERED that all Bond Team members shall actively participate in the design of the marketing materials for the transactions as well as in the development and implementation of the marketing and sales plan for the bonds. It is further

42. ORDERED that DEF and this Commission's staff and its financial advisor as Bond Team members, excluding DEF's structuring advisor, shall have equal rights on the hiring

decisions for the underwriters and counsel to the underwriters. However, DEF shall have sole right to select and engage all counsel for DEF and the SPE. It is further

43. ORDERED that the final structure of the transaction, including pricing, shall be subject to review by this Commission for the limited purpose of ensuring that all requirements of law and this Financing Order have been met. It is further

44. ORDERED that together with the Bond Team's involvement in the structuring, marketing and pricing of the nuclear asset-recovery bonds, and the Issuance Advice Letter process, this Commission shall be able to fully review the pricing of the bonds as this Commission determines whether to issue a stop order no later than 5:00 pm Eastern time on the third business day following pricing. It is further

45. ORDERED that the servicer shall remit collections of the nuclear asset-recovery charges to the SPE or the indenture trustee for SPE's account either on a daily basis based on estimated daily collections or on a monthly basis if conditions to be determined by the Bond Team can be satisfied. This Commission expects the Bond Team to determine these conditions after consultation with the rating agencies to achieve and maintain the targeted "AAA/Aaa" rating on the bonds and to address investor concerns in the marketing and pricing of the bonds. If remittances are not daily, each month the servicer shall remit estimated earnings on collections pending remittance. The calculation of earnings shall be consistent with the methodology for calculating interest on over- and under-collections associated with DEF's cost recovery clauses. It is further

46. ORDERED that this Commission authorizes DEF to enter into an Administration Agreement with each SPE and to perform the administration duties approved in this Financing Order. DEF shall be entitled to collect administration fees and expenses in accordance with the provisions of the Administration Agreement, provided that (i) the aggregate annual administration fee payable to DEF while it is serving as administrator (or to any other administrator affiliated with DEF) for SPEs shall be $50,000 per year, payable annually in arrears. It is further

47. ORDERED that partial payments shall be allocated to the nuclear asset-recovery charge in the same proportion that such charge bears to the total bill. It is further

48. ORDERED that to the extent that any interest in the nuclear asset-recovery property created by this Financing Order is assigned, sold, or transferred to an assignee, DEF shall enter into a contract with that assignee that requires DEF to continue to operate its transmission and distribution system in order to provide electric services to DEF's customers; but this provision shall not prohibit DEF from selling, assigning, or otherwise divesting its transmission and distribution systems or any part thereof so long as the entities acquiring such system agree to continue operating the facilities to provide electric service to DEF's customers. It is further

49. ORDERED that following repayment of the nuclear asset-recovery bonds and financing costs authorized in this Financing Order and release of the funds by the indenture

trustee, the SPE shall distribute the final balance of the Collection Account and DEF shall credit other electric rates and charges by a like amount, less the amount of the Capital Subaccount and any unpaid return on invested capital due to DEF as set forth in the body of this Financing Order. DEF shall similarly credit customers an aggregate amount equal to any nuclear asset-recovery charges subsequently received by the SPE or its successor in interest to the nuclear asset-recovery property. It is further

50. ORDERED that DEF or any assignee may apply for one or more new financing orders pursuant to Section 366.95, F.S. Each SPE may issue nuclear asset-recovery bonds approved in this Financing Order, or in future financing orders, so long as such future issuance does not cause any of the then current credit ratings of any outstanding nuclear asset-recovery bonds of the SPE to be suspended, withdrawn, or downgraded; provided, however, that DEF shall only create separate SPEs if they are required by the rating agencies to achieve the highest possible credit ratings. It is further

51. ORDERED that this Commission, as represented by designated Commission staff, this Commission's financial advisor, and this Commission's outside legal counsel, shall be actively involved in the bond issuance, subject to Ordering Paragraphs 66 and 67, as part of a Bond Team that also includes DEF, its structuring advisor or underwriter(s), and its outside counsel(s), in all aspects of the structuring, marketing, and pricing of each series of nuclear asset-recovery bonds to ensure that customers are represented in the transaction process and that the lowest overall cost standard is achieved. As a member of the Bond Team, this Commission's financial advisor will advise and represent this Commission on all matters relating to the structuring, marketing, and pricing of the nuclear asset-recovery bonds. Through its participation on the Bond Team, this Commission and its representatives will have an active and integral role in, and will participate fully and in advance in all plans and decisions relating to, the structuring, marketing, and pricing of the nuclear asset-recovery bonds as discussed in the body of this Order. Cooperation among DEF and this Commission will promote transparency in the nuclear asset-recovery bond pricing process, thereby promoting the integrity of the issuance process. It is further

52. ORDERED that this Commission will have the sole authority to select and retain its financial advisor and its outside legal counsel and, if needed, terminate and replace the financial advisor or outside legal counsel. It is further

53. ORDERED that costs associated with this Commission's financial advisor and outside legal counsel, to the extent such costs are eligible for compensation and approved for payment under the terms of such party's contractual arrangements with this Commission, as such arrangements may be modified by any amendment entered into at this Commission's sole discretion, shall qualify as financing costs and be paid from proceeds of nuclear asset-recovery bonds. Such costs shall be payable upon closing in immediately available funds. It is further

54. ORDERED that this Commission's financial advisor and its outside legal counsel will assist this Commission at this Commission's sole discretion. It is further

55. ORDERED that the members of the Bond Team shall work cooperatively to achieve the statutory cost objectives and the lowest overall cost standard. It is further

56. ORDERED that DEF and the underwriters shall cooperate with all members of the Bond Team and shall do all things reasonably necessary to enable all members of the Bond Team to meet the obligations stated in this Financing Order, including without limitation providing timely information to this Commission's financial advisor as needed to enable this Commission's financial advisor to fulfill its obligation to advise this Commission and to deliver its opinion letter as set forth in Ordering Paragraphs 74 and 75. It is further

57. ORDERED that DEF on a timely basis shall provide to each member of the Bond Team all information such member reasonably needs to fulfill its obligations under the Financing Order. It is further

58. ORDERED that the role of this Commission's financial advisor will include, among other things, advising this Commission and its staff whether or not DEF's proposed structuring, marketing, pricing and financing costs of nuclear asset-recovery bonds meet all statutory requirements, including the statutory cost objectives, as well as the lowest overall cost standard. At the direction of this Commission staff, such financial advisor may represent this Commission as an active participant in the actual pricing process in real time. The financial advisor shall promptly inform this Commission's staff of any items that, in the financial advisor's opinion, are not reasonable or are not consistent with applicable statutory requirements, the statutory cost objectives, or the lowest overall cost standard so that such concerns can be brought to the attention of DEF in real time. It is further

59. ORDERED that this Commission's financial advisor shall not have any financial interest in the nuclear asset-recovery bonds nor participate in the underwriting or secondary market trading of the nuclear asset-recovery bonds. Any ongoing financing costs (*i.e.,* costs associated with this Commission's review of the actual costs of the nuclear asset-recovery bond issuance under Section 366.95(2)(c)5., F.S.) associated with this Commission's financial advisor and with this Commission's consultants and any legal counsel that are eligible for compensation and approved for payment under the terms of such party's contract with this Commission, as such contract may be modified by any amendment entered into at this Commission's sole discretion, are deemed reasonable for purposes of recovery through the proceeds of nuclear asset-recovery bonds issued pursuant to this Financing Order. It is further

60. ORDERED that DEF, in consultation with the other members of the Bond Team, subject to Ordering Paragraph 67, shall determine whether issuing a series of nuclear asset-recovery bonds through a negotiated sale or a competitive sale or combination thereof will achieve the statutory cost objectives and the lowest overall cost standard. It is further

61. ORDERED that subject to the process set forth in Ordering Paragraph 67, the Bond Team shall oversee the development of the competitive solicitation and selection of some or all underwriters, underwriters' counsel, trustee services and other transaction arrangements as deemed appropriate by the Bond Team, other than DEF's counsel and issuer's counsel to ensure

that the processes are competitive, will provide the greatest value for customers, and will result in the selection of transaction participants that have experience and the ability to achieve the lowest overall cost standard. It is further

62. ORDERED that subject to Ordering Paragraph 67, the Bond Team shall review the nuclear asset-recovery bond transaction documents to ensure that the transaction documents reflect the terms of this Financing Order and otherwise to ensure that the greatest possible customer protections are included. It is further

63. ORDERED that all transaction documents and subsequent amendments associated with the nuclear asset-recovery bonds shall be reviewed by the Bond Team before becoming operative to ensure that the lowest overall cost standard is achieved, to ensure that the transaction documents reflect the terms of this Financing Order, and to ensure that the greatest possible customer protections are included. It is further

64. ORDERED that all legal opinions associated with the nuclear asset-recovery bonds shall be submitted to this Commission automatically without requiring this Commission to specifically request the documents. It is further

65. ORDERED that all legal opinions related to the nuclear asset-recovery bond transaction shall be provided to the Bond Team for review. It is further

66. ORDERED that DEF shall be the sole decision maker in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds that, in the sole view of DEF would expose DEF or the SPE to securities law or other potential liability (*i.e.*, such as, but not limited to, the making of any untrue statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriting agreement(s). It is further

67. ORDERED that a Commissioner will be designated to resolve any issue as to which the DEF and Commission staff joint decision makers are unable to reach agreement. Any such matter shall be presented by the DEF and Commission staff joint decision makers to the Commissioner by email or in other writing. The Commissioner shall announce his or her decision on each matter presented by email or other writing to the DEF and Commission staff joint decision makers as soon as reasonably possible. As agreed upon by the parties to this proceeding, the decision of the Commissioner on all such matters shall be final and not subject to review by this Commission. It is further

68. ORDERED that, subject to Ordering Paragraph 67 the Bond Team shall have the opportunity to review the presentations to the rating agencies and to make recommendations in furtherance of achieving the lowest overall cost standard; provided, however, that DEF shall be the sole decision maker in all aspects of the structuring, marketing and pricing of the nuclear asset-recovery bonds that, in the sole view of DEF would expose DEF or the SPE to securities law or other potential liability (*i.e.*, such as, but not limited to, the making of any untrue

statement of a material fact or omissions to state a material fact required to be stated therein or necessary in order to make the statements made not misleading) or contractual law liability (*e.g.*, including but not limited to terms and conditions of the underwriting agreement(s). It is further

69. ORDERED that, subject to Ordering Paragraphs 66 and 67, the Bond Team shall work on a cooperative basis (a) to educate and expand the market among underwriters and investors for nuclear asset-recovery bonds and (b) to create the greatest possible participation and competition among underwriters and investors in order to ensure that the statutory cost objectives and the lowest overall cost standard are achieved. It is further

70. ORDERED that, subject to Ordering Paragraph 67 and subject to a possible stop order of this Commission issued no later than 5:00 p.m. Eastern time on the third business day following pricing, DEF and the Bond Team shall be afforded flexibility in determining the final terms of each series of the nuclear asset-recovery bonds, including payment and maturity dates, interest rates (or the method of determining interest rates), the terms of any interest rate swap agreement or similar agreement, the creation and funding of any supplemental capital, reserve or other subaccount, and the issuance of nuclear asset-recovery bonds through either one SPE or multiple SPEs, except as otherwise provided in this Financing Order. It is further

71. ORDERED that the combined IAL/TUAL in substantially the form of Appendix C hereto is approved. It is further

72. ORDERED that DEF shall file for review and comment by the Bond Team a draft combined IAL/TUAL substantially in the form of Appendix C hereto at least two weeks prior to the expected pricing of the nuclear asset-recovery based upon the best information available at that time. Other aspects of the certifications may be modified to describe the particulars of the nuclear asset-recovery bonds and the actions that were taken during the transaction. Such draft shall include drafts of any certifications of DEF to be provided in connection with the filing of the final IAL/TUAL. Such certifications may be provided to this Commission on a confidential basis. Within one week of receiving the proposed form of combined IAL/TUAL, the members of the Bond Team representing this Commission shall provide comments and recommendations to DEF regarding the adequacy of information proposed to be provided. This Commission, acting directly, or though this Commission's staff designee, may agree to waive the prescribed time period for submission and review of the draft IAL/TUAL and any failure to provide written comments to the draft IAL/TUAL within the prescribed time period shall conclusively evidence a waiver of any objections. Prior to the submission of the first draft of the IAL/TUAL and through the period ending with the issuance of the nuclear asset-recovery bonds, DEF shall provide the Bond Team with timely information so that this Commission can participate fully and in advance regarding all aspects relating to the structuring, pricing and financing costs of the nuclear asset-recovery bonds. It is further

73. ORDERED that DEF shall file a combined IAL/TUAL in final form with this Commission no later than 5:00 pm Eastern time one business day after actual pricing at which time a meeting will be noticed for three business days after pricing to afford this Commission an opportunity to review the proposed transaction. As shown in the form of IAL/TUAL in

Appendix C, the combined IAL/TUAL shall include the following information: the actual structure of the nuclear asset-recovery bond issuance; the expected and final maturities of the nuclear asset-recovery bonds; over-collateralization levels (if any); any other credit enhancements; revised estimates of the upfront bond issuance costs proposed to be financed from proceeds of the nuclear asset-recovery bonds and estimates of debt service and other ongoing financing costs for the first Remittance Period; a statement of the actions taken by the Bond Team and/or DEF in the marketing of the bonds; a comparison of the pricing relative to an independent benchmark versus other similar securities historically and at the time of pricing; the amount of orders received and investors that placed the orders (on a confidential basis); and other information deemed necessary by the members of the Bond Team representing this Commission after review of the draft combined IAL/ITUAL, provided that such other information is consistent with the terms of this Financing Order; and a statement setting forth DEF's observations as to efforts made to assist the Bond Team in achieving the lowest overall cost standard. Finally, the combined IAL/TUAL shall include certifications from DEF if required, that the structuring, pricing and financing costs of the nuclear asset-recovery bonds achieved the statutory cost objectives. It is further

74. ORDERED that no later than 5:00 p.m. Eastern time on the second business day following pricing, this Commission's financial advisor shall deliver to this Commission an opinion letter consistent with the terms of its contract as to whether the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest nuclear asset-recovery charges consistent with prevailing market at the time of pricing, terms and conditions and terms of this Financing Order, and other applicable law; and (3) the greatest possible customer protections. That opinion letter shall include a report of any action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability. The report of any such action or inaction which this Commission's financial advisor believes might have caused the transaction not to achieve the statutory cost objectives, the lowest nuclear asset-recovery charges, and/or the greatest possible customer protections, regardless of whether the reason for action or inaction by DEF was the result of DEF's sole view that the action or inaction would expose DEF or the SPE to securities law or other potential liability shall be treated as a material qualification to the opinion letter of this Commission's financial advisor. Such opinion letter may be provided to this Commission on a confidential basis subject to the ability of parties to this proceeding to review it on a confidential basis. It is further

75. ORDERED that members of the Bond Team shall review this information on the second business day after pricing. If all required certifications and statements have been delivered and the transaction complies with applicable law and this Financing Order, and if this Commission's financial advisor has delivered an opinion letter concluding without material qualification that the structuring, marketing and pricing of the nuclear asset-recovery bonds achieved: (1) the statutory cost objectives; (2) the lowest overall cost standard; and (3) the greatest possible customer protections, then the transaction shall proceed without the need for

further action of this Commission and without the need to hold the previously noticed Commission meeting. If, however, this Commission's financial advisor has delivered an opinion letter that contains material qualifications, or if the Commission's financial advisor has not delivered an opinion letter, then at the meeting previously noticed for the third business day after pricing, the members of the Bond Team will present to this Commission the results of their review. Despite there being material qualifications in the opinion letter from the Commission's financial advisor, this Commission retains discretion to allow the transaction to be completed if, after taking into account the opinion letter, if any, of the financial advisor, the views of other members of the Bond Team, and any other facts and circumstances, except for a change in market conditions after the moment of pricing, this Commission determines that the requirements of Section 366.95, F.S. and the Financing Order have been satisfied. It is further

76. ORDERED that, if this Commission does not, prior to 5:00 p.m. Eastern Time on the third business day after pricing, issue a stop order, this Commission, without the need for further action and pursuant to our authority under this Financing Order, will affirmatively and conclusively be deemed to have (i) authorized DEF and SPE to execute the issuance of the proposed series of nuclear asset-recovery bonds on the terms set forth in the Issuance Advice Letter, (ii) approved DEF's recovery of the upfront bond issuance costs proposed to be financed from the proceeds of the nuclear asset-recovery bonds subject to review pursuant to Section 366.95(2)(c)5., F.S., and (iii) determined that all standards, procedures, conditions, requirements, and objectives set forth in this Financing Order have been satisfied and that the requirements of Section 366.95, F.S. have been met. It is further

77. ORDERED that the degree of flexibility set forth in the "Flexibility" section of this Financing Order is hereby approved. It is further

78. ORDERED that the Bond Team may require some or all underwriters of the nuclear asset-recovery bonds to deliver periodic reports on a confidential basis to members of the Bond Team presenting independently derived indicative pricing levels for the nuclear asset-recovery bonds before any public offering of the nuclear asset-recovery bonds is launched. The Bond Team may also request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard. It is further

79. ORDERED that, upon the request of any member of the Bond Team, the bookrunning underwriter(s) of the nuclear asset-recovery bonds shall provide to all members of the Bond Team a copy of any term sheet, prospectus, or other marketing materials used by the underwriting syndicate in marketing the nuclear asset-recovery bonds, together with documentary verification that these marketing materials received a broad distribution to potential investors most likely to accept the lowest yields on the nuclear asset-recovery bonds. It is further

80. ORDERED that DEF shall credit back to customers through the capacity cost recovery clause all periodic servicing fees in excess of DEF's or an affiliate of DEF's incremental cost of performing the servicer function until the next rate case when costs and revenues associated with the servicing fees will be included in the cost of service; and DEF shall

credit back to customers through the capacity cost recovery clause all periodic administration fees in excess of DEF's or an affiliate of DEF's incremental cost of performing the administration function until the next rate case when costs and revenues associated with the administration fees will be included in the cost of service. It is further

81. ORDERED that this Commission guarantees that it will act pursuant to this Financing Order as expressly authorized by Section 366.95(2)(c)2.d. and 4., F.S., to ensure that nuclear asset-recovery charge revenues are sufficient to timely pay principal of and interest on the nuclear asset-recovery bonds issued pursuant to this Financing Order and other costs, including fees and expenses, in connection with the nuclear asset-recovery bonds. It is further

82. ORDERED that, except as set forth in this Financing Order, all regulatory approvals within the jurisdiction of this Commission that are necessary for the securitization of the nuclear asset-recovery charges associated with the nuclear asset-recovery property and other financing costs that are the subject of the Petition are granted. This Financing Order constitutes a legal financing order for DEF under Section 366.95, F.S. This Financing Order complies with Section 366.95(2)(c)1., F.S. A financing order gives rise to rights, interests, obligations, and duties as expressed in Section 366.95, F.S. It is this Commission's express intent to give rise to those rights, interests, obligations, and duties by issuing this Financing Order. It is further

83. ORDERED that, if DEF proceeds pursuant to this Financing Order, DEF and any other servicer of nuclear asset-recovery bonds authorized hereby are permitted to take all actions as are required to effectuate the transactions approved in this Financing Order, subject to the compliance with Section 366.95, F.S., and with this Financing Order. It is further

84. ORDERED that this Financing Order is a final order, any appeal of which is to be conducted pursuant to Section 366.95(2)(e), F.S. The finality of this Financing Order is not impacted, in any manner, by the actions or inactions taken by this Commission with respect to any other matters considered in this proceeding. Should any other order entered in this proceeding, if appealed to the courts, not be upheld in full on appeal, such judicial ruling will in no event impact or modify the finality or effectiveness of this Financing Order. It is further

85. ORDERED that this docket shall remain open through completion of this Commission's review of the actual costs of the nuclear asset-recovery bond issuance conducted pursuant to Section 366.95(2)(c)5., F.S.

By ORDER of the Florida Public Service Commission this 19th day of November, 2015.

hk14-0,1LE.

CARLOTTA S. STAUFFE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

R G

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

SUMMARY OF CALCULATION OF DEF'S SECURITIZABLE BALANCE

Estimated CR3 Regulatory Asset, including carrying charges through 12/31/15	$1,283,012,000
Estimated carrying costs subsequent to 12/31/15 through bond issuance date*	18,826,920
Estimated upfront bond issuance costs	11,700,000
Estimated Principal Amount of Nuclear-Asset Recovery Bonds	$1,313,538,920

* through March 31, 2016

DUKE ENERGY FLORIDA
Nuclear Asset-Recovery Charge True-Up Mechanism Form
For the period , 20 through 20,

		Description				Calculation of the True-up (1)	Projected Revenue Requirement to be Billed and Collected (2)	Revenue Requirement for Projected Remittance Period (1)+(2)=(3)
1		**Nuclear Asset-Recovery Bond Repayment Charge (remitted to SPE)**						
2								
3		True-up for the Prior Remittance Period Beginning __ and Ending __:						
4		Prior Remittance Period Revenue Requirements						
5		Prior Remittance Period Actual Cash Receipt Transfers Interest income:						
6		Cash Receipts Transferred to the SPE						
7		Interest income on Subaccounts at the SPE						
8		Total Current Period Actual Daily Cash Receipts Transfers and Interest Income (Line 6 + 7)				-		
9		(Over)/Under Collections of Prior Remittance Period Requirements (Line 4+8)				-		
10		Cash in Excess Funds Subaccount				-		
11		Cumulative (Over)/Under Collections through Prior Remittance Period (Line 9+10)				$ -		$
12								
13								
14		Current Remittance Period Beginning and Ending						
15		Principal						
16		Interest						
17		Servicing Costs						
18		Other On-Going Costs						
19		Total Current Remittance Period Revenue Requirement (Line 15+16+17+18)				$ -		
20								
21		Current Remittance Period Cash Receipt Transfers and Interest Income:						
22		Cash Receipts Transferred to SPE				(A) (B)		
23		Interest Income on Subaccounts at SPE				(A) (B)		
24		Total Current Remittance Period Cash Receipt Transfers and Interest Income (Line 22+23)				$ - $ -		
25		Estimated Current Remittance Period (Over)/Under Collection (Line 19+24)				$ -	$ -	$
26								
27								
28		Projected Remittance Period Beginning and Ending						
29		Principal						
30		Interest						
31		Servicing Costs						
32		Other On-Going Costs						
33		Projected Remittance Period Revenue Requirement (Line 29+30+31+32)					$ -	$
34								
35		Total Revenue Requirements to be Billed During Projected Remittance Period (Line 11+25+33)						$
36		Forecasted KWh Sales for the Projected Remittance Period (adjusted for uncollectibles)						
37		Average Retail Nuclear Asset-Recovery Charge per kWh (Line 35/36)						(C) 0
38								
39								
40								
41		Notes:						
42		(A) Amounts are based on a billed and collected basis.						
43		(B) Includes estimated amounts for ___ through ___.						
44		(C) Allocation of this amount to each rate class is addressed by Ms. Olivier in her testimony.						

DUKE ENERGY FLORIDA

Form of Issuance Advice Letter

[Letterhead of Duke Energy Florida, LLC]

[, 20]

[ ]

Office of Commission Clerk

Florida Public Service Commission

2540 Shumard Oak Boulevard

Tallahassee, Florida 32399-0850

Re: Duke Energy Florida's Petition for Issuance of a Nuclear Asset-Recovery Financing Order; Docket No. [ ]; Issuance Advice Letter and Form of True-Up Adjustment Letter

Dear [ ]:

Pursuant to the financing order in the above-captioned Docket ("Financing Order"), Duke Energy Florida, LLC (the "Company") hereby transmits for filing this combined Issuance Advice Letter and Form of True-Up Adjustment Letter. Any terms not defined herein shall have the meanings ascribed thereto in the Financing Order or Section 366.95, Florida Statutes.

In the Financing Order, the Commission requires the Company to file a combined Issuance Advice Letter and Form of True-Up Adjustment Letter following pricing of a series of Nuclear Asset-Recovery Bonds.

The terms of pricing and issuance of the first series of Nuclear Asset-Recovery Bonds are as follows:

Name of Nuclear Asset-Recovery Bonds: Senior Secured Bonds, Series [ ]

Name of SPE: [DEF SPE] LLC

Name of Trustee: The Bank of New York Mellon

Expected Closing Date: [ ]

Preliminary Bond Ratings: Moody's, [ ]; Standard & Poor's, [ ]; Fitch, [ ]

(final ratings to be received prior to closing)

Total Principal Amount of Nuclear Asset-Recovery Bonds to be Issued (i.e., Amount of Nuclear Asset-Recovery Costs and Up-Front Bond Issuance Costs to be Financed):

$[ ] (See Attachment 1)

Estimated Up-Front Bond Issuance Costs: $[ ] (See Attachment 2)

Interest Rates and Expected Amortization Schedule: (See Attachment 3)

Distributions to Investors: Semiannually

Weighted Average Coupon Rate[3]: [ ]%

Annualized Weighted Average Yield[4]: [ ]%

Initial Balance of Capital Subaccount: $[ ]

Estimated/Actual Ongoing Costs for first year of Nuclear Asset-Recovery Bonds: $[ ] (See Attachment 4)

The initial Nuclear Asset-Recovery Repayment Charge (the "Initial Charge") has been calculated in accordance with the methodology described in the Financing Order and based upon the structuring and pricing terms of the Nuclear Asset-Recovery Bonds set forth in this combined Issuance Advice Letter and Form of True-Up Adjustment Letter.

Attachment 5 provides the Revenue Requirements for calculating the Initial Charge. Attachment 6 calculates the Initial Charge based upon the cost allocation formula approved in the Financing Order. Attachment 7 provides the estimated savings to customers when compared to the traditional method of cost recovery. Also attached are the calculations and supporting data for such tables. The Company's certification is Attachment 8.

Pursuant to the Financing Order, the transaction may proceed and the Initial Charge will take effect unless [**a stop order is issued by the Commission at the meeting to be held [, 20] (3 days after pricing)**]; and the Company, as servicer, or any successor servicer and on behalf of the trustee as assignee of the SPE, is required to apply at least every six months for mandatory periodic adjustment to the Nuclear Asset-Recovery Repayment Charges. The

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[3] Weighted by modified duration and principal amount of each class.
[4] Weighted by modified duration and principal amount, calculated including selling commissions.

Initial Charge shall remain in effect until changed in accordance with the provisions of finding of fact [ ] of the Financing Order.

The Company's certification required by the Financing Order is set forth on Attachment 8, which also includes the statement of the actions taken by the Bond Team as required by finding of fact [ ] of the Financing Order.

Respectfully submitted,

Duke Energy Florida, LLC

By: _____

Attachment 1

TOTAL PRINCIPAL AMOUNT OF NUCLEAR ASSET-RECOVERY BONDS TO BE ISSUED (TOTAL AMOUNT OF NUCLEAR ASSET-RECOVERY COSTS AND UP-FRONT BOND ISSUANCE COSTS TO BE FINANCED)

CR3 Regulatory Asset, as of December 31, 2015	$
Carry charges on the CR3 Regulatory Asset, subsequent to December 31, 2015	
Estimated Up-front Bond Issuance Costs (refer to attachment	$
2) Total Costs Subject to Nuclear Asset-Recovery Financing	$
Total Nuclear Asset-Recovery Bond Issuance (rounded up)	**$**

Attachment 2[1]

ESTIMATED UP-FRONT BOND ISSUANCE COSTS

Underwriters' Fees and Expenses	$
Servicer Set-up Fee (including Information Technology Programming Costs)	$
Legal Fees	$
Rating Agency Fees	$
Commission's Financial Advisor Fees	$
Auditors Fees	$
DEF Structuring Advisor Fee	$
SEC Fees	$
SPE Set-up Fee	$
Marketing and Miscellaneous Fees and Expenses	$
Printing / Edgarizing Expenses	$
Trustee/Trustee Counsel Fee and Expenses	$
Original Issue Discount	$
Other Ancillary Agreements	$
TOTAL ESTIMATED UP-FRONT BOND ISSUANCE COSTS	**$**

[1] Pursuant to Section 366.95(2)(c)5. and the Financing Order, the Company is required to file with the Commission the actual Up-Front Bond Issuance Costs within 120 days of the Closing Date. The Commission may not make adjustments to the Nuclear Asset-Recovery Charges for any such excess Up-Front Bond Issuance Costs.

Attachment 3

EXPECTED AMORTIZATION SCHEDULE

A. General Terms

Tranche	Price	Coupon	Fixed/ Floating	Average Life	Expected Final Maturity	Legal Final Maturity

B. Scheduled Amortization Requirement

Series [ ], Tranche [A-1]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Series [ ], Tranche [A-2]

Highlight by Witness

Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Attachment 4

ESTIMATED ANNUAL ONGOING FINANCING COSTS

	Annual Amount
Servicing Fee[1]	$
Return on Invested Capital	$
Administration Fee	$
Auditor Fees	$
Regulatory Assessment Fees	$
Legal Fees	$
Rating Agency Surveillance Fees	$
Trustee Fees	$
Independent Manager Fees	$
Miscellaneous Fees and Expenses	$
TOTAL ESTIMATED ANNUAL ONGOING FINANCING COSTS	$

1 Low end of the range assumes DEF is the servicer (0.05%). Upper end of the range reflects an alternative servicer (0.60%)

Attachment 5

REVENUE REQUIREMENT AND INPUT VALUES

Initial Payment Period from [, 20]to [, 20]	**Bond Repayment**	**Total**
Forecasted retail kWh sales		
Percent of billed amounts expected to be charged-off		%
Forecasted % of billings paid in the applicable period		%
Forecasted retail kWh sales billed and collected		
Nuclear Asset-Recovery Bond principal payment	$	$
Nuclear Asset-Recovery Bond interest payment	$	$
Forecasted ongoing financing costs (excluding principal and interest)	$	$
Total collection requirement for applicable period	$	$

Highlight by Witness

Attachment 6

Rate Cass	I: Nuclear Asset-Recovery 12CP & 1/13 AD Allocation Factors Requirement (%)	12: Revenue S	;3: Effective kWh @ Secondary Level (000)	{1: Charge Before Gross-ups (c/Kwh)	; 5; Gross-up for U ncollecti be Accounts`" Fee 94,	i 6; Gross-up for Regulatory Assessment 96	1[7]; Nuclear Asset-Recovery Charge (c/Kwh)
Residential							
RS-1, RST-1, RSL-1, RSL-2,RSS-1							
Secondary	60259%	561.552.710	19.495.155	0.316	0.28436	0.072%	0.317
General Service Non-Demand							
GS-1, GST-1							
Secondary			1.575.881	0.255	0.28.6	0.07296	(1256
Prirary			8.616	0.252	0.28.6	0.07296	0.253
Trans r-iss;on			3.564	0.250	0.284%	0.072%	0.251
TOTA L GS	4.010%	51.056.685	1,588,044				
ripnpral Sp rvicp							
GS-2 Secondary	0.28496	5287.695	15.610	0.174	0.28436	0.072%	0.175
fienpralService Demand							
GSD-1, GSDT-1, 55-1							
Secondary			12,03,676	0.218	0.28434	0.07296	0.219
Primary			2,384.319	0.216	0.28.6	0.07296	0:1217
Transmission			10,895	0.214	0.28436	0.07296	(1214
TOTALGSD	30.991%	531.3/6.736	14,408,890				
Curtailable							
CS-1,CST1, CS-2, CST-2, CS-3, CST-3,55-3							
Secondary			-	0.148	0.28436	0.072%	(1149
Prir-ark.			121.778	0.147	0.284%	0.07296	a 147
Trans r-ission				0.145	olus	0.072%	11146
TOTAL CS	0.17896	5180.385	121.778				
jnterruprible							
IS-1, 6T-1, 15-2, 6T-2, SS-2							
Secondary			.382	0.178	0.284)6	0.072%	11179
Primary			1.33s,s41	0.176	0.284%	0.072)6	0.177
Tra r* miss, or			316.913	0.174	0.284%	0.07296	11175
TOTAL 5	3.501%	53.511.168	1,995436				
Lighting							
LS-1 Secondary	0.173%	5174,966	385.378	0.045	0.28436	0.07296	(1045
Total	100.00036	5101.156.514	38.159.991	0.265	0.284%	0.07236	(1266

Uncollectible accounts percentage wm approved in Order No. PSC-10-0131-F0E- El

Attachment 7

ESTIMATED SAVINGS

Based on current market conditions, the total estimated cumulative revenue requirement would be $708 million lower, on an undiscounted basis, than the total estimated cumulative revenue requirement under the traditional recovery method the Company is entitled to recover under the Revised and Restated Stipulation and Settlement Agreement approved by the Commission pursuant to its order (No. PSC-13-0598-FOF-EI) issued on November 13, 2013, detail for which is shown in the table below.

[Workpapers to be attached]

Attachment 8

Form of Company Certification

[Letterhead of Duke Energy Florida, LLC]

[, 20]

TO: Florida Public Service Commission

2540 Shumard Oak Boulevard

Tallahassee, Florida 32399-0850

Re: Attachment 8; Company Certification

Duke Energy Florida, LLC (the "Company") submits this Certification pursuant to an ordering paragraph of the Financing Order on page [ ] in *Petition for issuance of a nuclear asset-recovery financing order by Duke Energy Florida, LLC,* Docket No. [ ] (the "Financing Order"). All capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

In its issuance advice and form of true-up adjustment letter dated [, 20], the Company has set forth the following particulars of the Nuclear Asset-Recovery Bonds:

Name of Nuclear Asset-Recovery Bonds: Senior Secured Bonds, Series [ ]

Name of SPE: [DEF SPE] LLC

Name of Trustee: The Bank of New York Mellon

Expected Closing Date: [, 20]

Preliminary Bond Ratings: Moody's, [ ]; Standard & Poor's, [ ]; Fitch, [ ] (final ratings to be received prior to closing)

Total Principal Amount of Nuclear Asset-Recovery Bonds to be Issued: $ (See Attachment 1)

Estimated Up-Front Bond Issuance Costs: $ (See Attachment

2) Interest Rates and Expected Amortization Schedule: (See Attachment 3)

Distributions to Investors: Semiannually

Weighted Average Coupon Rate[5]: %

Annualized Weighted Average Yield[6]: %

Initial Balance of Capital Subaccount: $

Estimated/Actual Financing Ongoing Costs for first year of Nuclear Asset-Recovery Bonds: $[ ]

As required by the Financing Order, a Bond Team comprised of representatives of the Company, the Commission and their designated advisors and legal counsel was established to ensure that the structuring, pricing and financing costs of the nuclear asset-recovery bonds have a significant likelihood of resulting in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with the traditional method of cost recovery.

Beginning in [ ] of 2015, the Bond Team began meeting to address the details of the nuclear asset-recovery bond issuance in accordance with the terms of the Commission's Financing Order. [**ADD DESCRIPTION OF BOND TEAM MEETINGS**]

In accordance with the standards, procedures and conditions set forth in the Financing Order, the following actions were taken by the Bond Team in connection with the structuring, pricing and financing costs of the nuclear asset-recovery bonds in order to satisfy the statutory cost objectives and the lowest overall cost standard:

- [include relevant actions]

Based upon information known or reasonably available to the Company, its officers, agents and employees: (i) the structuring, pricing and financing costs of the nuclear asset-recovery bonds and the imposition of the proposed nuclear asset-recovery charges have a significant likelihood of resulting in lower overall costs or significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs and (ii) on a reasonably comparable basis, the costs incurred in the issuance of the nuclear asset-recovery bonds resulted in the lowest overall costs that were reasonably consistent with market conditions at the time of the issuance and the terms of the financing order.

This certification is being provided to the Commission by the Company in accordance with the terms of the Financing Order, and no one other than the Commission shall be entitled to rely on the certification provided herein for any purpose.

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[5] Weighted by modified duration and principal amount of each class.
[6] Weighted by modified duration and principal amount, calculated including selling commissions.

Duke Energy Florida, LLC

By: _____

Name:

Title:

DUKE ENERGY FLORIDA

Form of Standard True-Up Letter

[name]

[Title]

Florida Public Service Commission

2540 Shumard Oak Boulevard

Tallahassee, Florida 32399-0850

Re: Docket No. 150171-EI
Routine Nuclear Asset-Recovery Charge True-Up Adjustment Request

Dear [_____]:

Pursuant to Section 366.95, F.S., and Order No. [ ], known as the "Financing Order," Duke Energy Florida, LLC (DEF) as Servicer of the [insert description] ("nuclear asset-recovery bonds") hereby gives notice of an adjustment to the nuclear asset-recovery bond charges ("nuclear asset-recovery charges").

This adjustment is intended to satisfy Section 366.95(2)(c), F.S., and the Financing Order, which requires that the nuclear asset-recovery charges recover amounts sufficient to timely provide all payments of debt service and other required amounts and charges in connection with the nuclear asset-recovery bonds during the upcoming Remittance Period. The calculation of the revised factors is in accordance with the Financing Order.

This filing modifies the variables used in the nuclear asset-recovery charges and provides the resulting adjusted nuclear asset-recovery charges. Attachment A-l shows the resulting values of the nuclear asset-recovery charges for each class of customers, as calculated in accordance with the Financing Order, such charges to be effective as of [insert date], the first day of the billing cycle. Pursuant to 366.95(2)(c), F.S., the allocation of nuclear asset-recovery charges has been made in accordance with the Financing Order dated as of [insert order issue date]. The calculations and supporting data for charges are appended to Attachment A-1.

Consistent with the Financing Order, the proposed adjustments to the charges will be effective on [insert date], the first day of the billing cycle (i.e., 60 days after the filing of this routine nuclear asset-recovery charge true-up adjustment request).

DEF is also submitting for administrative approval the [TBD] Revised Sheet No. 6.105, which reflects the revised Nuclear Asset-Recovery Bond Repayment Charge factors. Attachment A-2 includes this tariff sheet in clean and legislative formats. Consistent with Commission practice, the administratively approved tariff sheet should be returned to Javier Portuondo, DEF's Director of Rates & Regulatory Strategy, 299 1st Avenue North, St. Petersburg, Florida 33701.

If you have any questions regarding this filing, please do not hesitate to contact me at [insert]. Thank you for your assistance.

Respectfully submitted,

DUKE ENERGY FLORIDA, LLC

By: _____

Name: _____

Title:

Attachments

Asset Securitization report
The Premier Guide to Asset and Mortgage-Backed Securitization
www.asreport.com

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WHISPERS

In a restructuring within the bank, **Banc of America Securities** named managing director **Pat Augustine** head of a new product group overseeing ABS, MBS, investment-grade debt and non-leveraged loan operations. The group is called "Debt Operating Committee," of which all of its members report to committee chair **Ed Brown**. The 11-member committee oversees all aspects of fixed-income operations, according to a memo.

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CONTENTS

RRB sector leader Texas aims to set best practices

CenterPoint plans largest-ever stranded cost ABS

CenterPoint Energy, which hopes to bring the largest ever stranded cost offering next year, has taken steps,at the request of regulators to increase transparency in its deals, hopefully leading to a sector-wide trend. Interestingly, several past issuers have de-registered, or suspended filings, on their outstanding transactions. Using programmatic ABS issuers such as **Sallie Mae** as a benchmark, CenterPoint voluntarily committed to expand the data reported in quarterly filings and begin reporting additional performance and collections data on its Web site, sources said.

The move comes as CenterPoint is in the planning stages of a $4 billion to $6 billion offering via **Morgan Stanley** and the **Public Utility Commission of Texas** (PUCT). The commission aims to differentiate the state as the most investor-friendly in the stranded asset universe. The state also claims it will ensure the lowest electricity rates to electricity consumers.

Together, CenterPoint, the PUCT and its financial advisor **Saber Partners LLC** are pushing to set a best-practices standard for RRB

- SEE ***RRB*** ON PAGE 5 -

Welcome Break restructuring

Welcome Break plc, the U.K.-based motorway operator, was back in the market negotiating yet another round of refinancing in an attempt to save its securitization from falling into junk oblivion.

The ratings saga for this operating company securitization began last year, with **Fitch Ratings** taking action on the deal after keeping it on watch for nearly a year (see *ASR* 3/4/02). The class A1, A2 and A3 notes were all downgraded to 'BBB+' from 'A', and a class B tranche was downgraded to 'BB' from 'BBB'. At the time, analysts noted that future sale/lease-backed transactions executed by the company could result in further rating volatility. Fitch decided to keep

- SEE ***WELCOME*** ON PAGE 20 -

Brazil cross-border picks up

After months of the occasional cross-border saunter, Brazil is now moving at a rhythm worthy of samba. Hot on the heels of credit card processor **Visanet**, three issuers from the Latin giant have descended on cross-border investors over the last two weeks for a total of US$447 million, according to sources. Two of those transactions — **Gerdau/Acominas** and **Companhia Siderurgica Nacional** (CSN) — were in the steel sector, whereas the third was by **Banco Itau**, a bank.

CSN priced a US$142 million, seven-year final 144A at 485 basis points over Treasurys via **BNP Paribas**, while Acominas issued a US$105 million, seven-year final pri-

- SEE ***BRAZIL*** ON PAGE 18 -

***RRB** CONTINUED FROM COVER PAGE*

issuers, even though, by nature, energy producers are not reliant on the ABS market for funding. The goal is an unusual one for these issuers — to assure the lowest cost to the consumer, according to PUCT Chairwoman **Rebecca Klein**.

Despite the unique strengths, such as a legislatively mandated periodic true-up mechanism and an inability of consumers to avoid payment — both of which are pointed out repeatedly by researchers — the sector pays a liquidity premium versus other fixed-rate asset classes. Outstanding Texas RRBs, however, are the tightest in the sector, frequently pricing in line with more liquid credit card ABS.

Due to the off-the-run status, these typically one-off deals have been forgotten by some issuers following pricing and are viewed by some as "orphaned children." In fact, of the 21 deals to price since 1997, eight have been either de-registered, pursuant to Rule 15-15D, or have seen filings stop altogether, for no apparent reason, according to filings with the Securities and Exchange Commission. Texas regulators, with the help of Saber, hope to change that.

Imagine the investor reaction if **Ford Motor Credit**, for example, de-registered and ceased reporting on its outstanding ABS. The trouble, notes Saber CEO **Joseph Fichera**, is that stranded cost issuers aim to price at levels comparable to others within the sector, rather than the benchmark issuers in other sectors of the ABS market. "RRBs are an asset class with a unique form of credit enhancement, the true-up. Imagine if a credit card issuer could ensure losses of less than 1%, as the true-up allows."

"At a time when the quality of information available to the market on some [issuer-specific] credit card-backed bonds and similar securities is getting worse, the CenterPoint/PUCT effort to create a new best practice should enhance liquidity of CenterPoint's outstanding transition bonds," Fichera added. "Ratepayer costs on new CenterPoint issues, if any, could be lower as a result."

Currently, Texas is viewed in the top tier of states from which RRBs have been issued (see *ASR* 6/23/03). In addition to the current initiatives, as reported in *ASR* sister publication *Investment Dealers' Digest*, the PUCT has mandated that issuers hold competitive bidding for underwriters to win lead mandates. This is all in an effort to "ensure the lowest possible cost to Texas customers," added the PUCT's Klein.

Already the leader among RRB-issuing states, Texas originated RRBs have historically priced roughly 11 basis points through other states' bonds for three-year, 15 basis points through for seven-year and 20 basis points through for 10-year paper, traders said. Researchers have cited the favorable legal environment for energy concerns, as well as constituent support for utility holding companies — the leading employers — within the state.

"Of all the states involved in stranded cost securitization, Texas recognizes the timing issues and secondary liquidity importance to investors," Fichera summed up. "Most [RRB] issuers are not as concerned about the all-in cost of issuance, because it is easily and unequivocally passed on to the consumer. — *KD*

THE VANISHING DATA GAME

No filing - no explanation

Issue	*State*	*Pricing*	*Filing*	*Date Filed*
PSNH Funding 2001-1	NH	Apr-01	8-K	5/7/01
PSNH Funding 2002-1	NH	Jan-02	8-K	2/7/02
WMECO Funding 2001-1	MA	May-01	8-K	5/24/01

Deregistered under Rule 15-15D

Issue	*State*	*Pricing*	*Filing*	*Date Filed*
ConEd Funding LLC	IL	Dec-98	15-15D	5/13/99
Illinois Power 1998-1	IL	Dec-98	15-15D	5/17/99
BEC Funding 1999-1	MA	Jul-99	15-15D	5/8/00
Peco Energy 2000-A	PA	Apr-00	15-15D	1/29/02
CPL Tran. Funding 2002-1	TX	Jan-02	15-15D	1/22/03

Source: Securities and Exchange Commission

subsidiary] **Hann Financial** is required to maintain on behalf of the origination trust contingent and excess liability insurance which provides primary and/or excess coverage of at least $5 million combined single limit coverage per occurrence and an umbrella insurance policy which provides coverage up to $20 million per occurrence. Susquehanna has guaranteed to cover tortuous liability claims up to $25 million," noted Moody's pre-sale report.

"The event risk of all the protections failing is small," Moody's Lawrence said. "And should any case be on appeal for two years, as the Rhode Island case is, this transaction would be almost all paid down." The longest dated tranche in the deal is three years and over 71% of the leases in the pool are roughly three years in term.

The vicarious liability law, signed into effect in 1924, has led many auto finance companies to cease auto leasing activity in New York as of July 1, after the state legislature failed to eradicate or cap liabilities prior to its summer recess. While the state Senate passed A-1042, which would have repealed vicarious liability, the bill stalled in the state Assembly. — *KD*

Oncor Electric

Revitalizing an entire asset class

Oncor Electric's first stranded cost securitization was a landmark for the stranded cost sector, which at the time had yet to fully mature. While roughly three years old, stranded cost ABS, or rate reduction bonds (RRBs), had been brought primarily by non-programmatic issuers, with the intention of never returning. And although called rate reduction bonds, most issuers were more concerned with recovering costs associated with prior investments made in a pre-deregulated environment.

With the combined efforts of **Public Utilities Commission of Texas** (PUCT), and advisory firm **Saber Partners**, Oncor changed the stranded cost ABS landscape — creating investor reporting standards. Issuers in Texas — the state with the most potential supply — must allow investors to fully understand and gauge performance of this relatively new asset class. The goal of the PUCT, Oncor and Saber was to achieve the most inexpensive all-in cost for the issuer, and in turn keep charges to the consumer as low as possible.

In addition to increasing transparency for investors through reporting, Oncor utilized an unheard of "performance based" underwriting fee, rewarding lead and co-managers for broadening investor distribution and tightening spreads.

Joseph Fichera, CEO of Saber Partners calls the performance-based compensation "revolutionary."

"In Oncor's offering we created additional relative value through the structure, increased disclosure and transparency and broader liquidity by expanding the buyer base," Fichera said. "For the bookrunners and co-managers, we tied compensation to performance on price and distribution so that everyone's incentives were aligned — the investor buying the bonds and the ratepayer paying for the bonds received the best deal possible at the time."

The result was broad distribution to non-traditional ABS investors, with heavy corporate overlap. Also, Oncor priced at the tightest levels the sector had seen to date through secondary RRB spreads, pricing just behind the largest and most liquid asset classes of the ABS market, rather than a "one-off" collateral type. Moreover, in the weeks following Oncor's pricing, the entire $30 billion stranded cost sector tightened four to 10 basis points, depending on maturity, and has remained at those levels throughout the year.

"The concept is essentially investment bankers earning their compensation during the underwriting and sales process, as opposed to being guaranteed compensation before a single bond is sold," Fichera added. "We wanted an incentive-based compensation plan that prevented the bookrunners from controlling everything while giving the co-managers a greater incentive to work."

Cendant's Terrapin: ABS technology comes together

A close runner-up to Oncor,

THE DEALS

ONCOR TRANSITION BOND LLC 2003-1

Date: 8/14/2003 | **Seller: Oncor Electric Delivery Co.** | **Amount: $500 million** | **Collateral: stranded cost**

Class	*Amount*	*MDY/S&P/FTC*	*Avg. Life*	*Benchmark*	*Guidance*	*Spread*	*Coupon*	*Price*	*Yield*
A1	$103.0	Aaa/AAA/AAA	2.00y	Swaps	+8-10bp	+7bp	2.26%	99.9827	2.269%
A2	$122.0	Aaa/AAA/AAA	5.00y	Swaps	+8-10bp	+7bp	4.03%	99.9872	4.033%
A3	$130.0	Aaa/AAA/AAA	8.00y	Swaps	+16-18bp	+16bp	4.95%	99.9683	4.955%
A4	$145.0	Aaa/AAA/AAA	10.8y	Swaps	+20-22bp	+19bp	5.42%	99.9768	5.423%

Credit Enhancement: sr/sub | **Manager: Lehman Brothers, Morgan Stanley**

Notes: Settles: 08/21/03; Co-mgrs: Goldman Sachs, Merrill Lynch

TERRAPIN FUNDING LLC

Date: 7/18/2003 | **Seller: Cendant Corp.** | **Amount: $377.43 million** | **Collateral: auto fleet lease**

Class	*Amount*	*MDY/S&P/FTC*	*Avg. Life*	*Benchmark*	*Guidance*	*Spread*	*Coupon*	*Price*	*Yield*
A1	$187.3	Aa2/AA/NR	3.00y	1ML	+60bp A	+75bp	+75bp	100.0	n/a
B1	$80.58	A2/A/NR	3.00y	1ML	+130bp A	+130bp	+130bp	100.0	n/a
B2	$50.0	A2/A/NR	5.00y	1ML	+150bp A	+150bp	+150bp	100.0	n/a
C1	$44.0	Baa2/BBB/NR	3.00y	1ML	+225bp A	+225bp	+225bp	100.0	n/a
C2	$15.55	Baa2/BBB/NR	5.00y	1ML	+250bp A	+250bp	+250bp	100.0	n/a

Credit Enhancement: sr/sub | **Manager: Lehman Brothers**

ASSET-BACKED ALERT
The Weekly Update on Worldwide Securitization
www.ABAlert.com

SEPTEMBER 5, 2003

THE GRAPEVINE

... From Page 1

Secondary-market spreads are tightening for utility-fee bonds, thanks to a $500 million securitization by Dallas-based **Oncor Electric Delivery** last month that brought in the tightest-ever pricing for an issue of its kind. Five-year utility-fee securities, for example, were changing hands at 9 bp over swaps this week, compared to 14 bp over swaps in early August. Oncor, a unit of **TXU Electric**, is planning an $800 million deal for January as well.

June 16, 2016

Florida Public Service Commission
Saber Partners, LLC
c/o Saber Partners, LLC
44 Wall Street
New York, New York 10005
Attention: Joseph S. Fichera
Chief Executive Officer &
Senior Managing Director
Duke Energy Florida, LLC
Duke Energy Florida Project Finance, LLC
550 South Tryon Street, DEC 40A
Charlotte, North Carolina 28202
Attention: Treasurer

Duke Energy Florida, LLC
Duke Energy Florida Project Finance, LLC
Series A Senior Secured Bonds

Ladies and Gentlemen:

In Docket No. 150171-EI, the Florida Public Service Commission (the "Commission") issued its Financing Order dated November 19, 2015 (the "Financing Order"). The Financing Order authorized a wholly-owned subsidiary of Duke Energy Florida, LLC (the "Company"), Duke Energy Florida Project Finance, LLC (the "Issuer"), to issue nuclear asset-recovery bonds as defined in the Financing Order. This certificate is being delivered pursuant to Ordering Paragraph 78 of the Financing Order which states: "The Bond Team may also request one or more of the bookrunning underwriters to deliver an opinion letter as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds achieved the lowest overall cost standard."

[redacted] (the "Underwriter") serves as a joint-lead bookrunning underwriter for $1,294,290,000 aggregate principal amount of the Issuer's Series A Senior Secured Bonds (the "Series A Bonds") proposed to be issued pursuant to the Financing Order. Attached as Appendix A is the Pricing Term Sheet delivered by the Company in connection with the issuance of the Series A Bonds. This Pricing Term Sheet includes a schedule setting forth the principal amount, any original issue premium or discount, the interest rate, and the resulting net proceeds to the Issuer (before expenses) for each weighted average life designation of Series A Bonds.

Since the date the Underwriter was first retained to serve as a joint-lead bookrunning underwriter in connection with the issuance of the Series A Bonds, the Underwriter has offered Saber Partners, LLC ("Saber Partners"), as the Commission's financial advisor in connection with the Series A Bonds, the opportunity to participate fully and in advance in all negotiations in which the Underwriter has participated regarding all aspects of the structuring, marketing, and pricing of the Series A Bonds. The Series A Bonds were priced at 1:59 PM New York Time on June 15, 2016 (the "Pricing Time"), when a syndicate of underwriters, jointly led by the

Underwriter, agreed to purchase the Series A Bond in accordance with the terms of the Underwriting Agreement, dated June 15, 2016.

Based on the Underwriter's experience and on market conditions and other information reasonably available to the Underwriter through the Pricing Time, we hereby certify, in our opinion, that:

1. Competitive sales are not customary in the market in which nuclear asset-recovery bonds typically are marketed, nor are they generally considered to be the most effective manner in which to market securities such as the Series A Bonds.

2. The Issuer would not have achieved a lower net cost of funds to the Issuer for any or all weighted average life designations of the Series A Bonds through a competitive bidding process than through the negotiated sale of all the Series A Bonds to the syndicate of underwriters jointly led by the Underwriter.

3. The structure of the Series A Bonds reflected in the Preliminary Prospectus filed with the United States Securities and Exchange Commission on June 15, 2016 and in the transaction documents described and/or contemplated therein, when viewed in the aggregate, resulted in the lowest overall net cost of funds to the Issuer in respect of the Series A Bonds.

4. The marketing and pricing of the Series A Bonds resulted in (a) the lowest overall net cost of funds to the Issuer in respect of the Series A Bonds in the aggregate, and (b) the lowest net cost of funds to the Issuer in respect of each weighted average life designation of Series A Bonds.

Based on the foregoing, on the Underwriter's experience and on market conditions and other information reasonably available to the Underwriter through the Pricing Time, we hereby certify, in our opinion, that the Issuer achieved (a) the lowest overall net cost of funds to the Issuer in respect of the Series A Bonds, and (b) given the schedule of weighted average life designations of the Series A Bonds, the lowest net cost of funds to the Issuer in respect of each weighted average life designation of Series A Bonds.

For purposes of this certificate, "net cost of funds" to the Issuer" means the yield payable by the Issuer on each weighted average life designation of the Series A Bonds plus the annualized cost, expressed as a percentage, of the underwriter's discount and any external credit enhancement attributable to that weighted average life designation.

For purposes of this certificate, "marketing" means all aspects of presenting the Series A Bonds to the public capital markets and offering the Series A Bonds for sale to investors, including but not limited to targeting particular investors or classes of investors and selecting methods of communicating with investors.

We are delivering this certificate (i) to Saber Partners to assist Saber Partners in determining whether to notify the Company and the Commission that the structuring, marketing, and pricing of the Series A Bonds complies with the criteria established in the Financing Order, (ii) to the Company to assist it in executing and delivering its Issuance Advice Letter, and (iii) to the Commission to assist it in determining whether to issue an order pursuant to Ordering Paragraph 75 or Ordering Paragraph 76 of the Financing Order, or whether to allow the Series A Bonds to be issued without further action by the Commission pursuant to Ordering Paragraphs 75 and 76 . Except for references to this letter (a) in the Company's certification to the Commission and Saber Partners, (b) in any certification or other writing or oral communication provided by Saber Partners to the

Commission or to the Commission's staff relating to the Series A Bonds, or (c) by the Commission or its staff to Saber Partners or to the Commission's outside legal counsel, without our written permission, neither this letter nor its substance nor any such certification or other writing or oral communication concerning this letter may be disclosed, published in any document or referred to in any manner, including any certification, other writings or oral communications, nor may any of them be furnished to, used by or relied upon by any other person or for any other purpose unless otherwise required by applicable law. Nothing in this paragraph shall prevent the Company, the Commission or Saber Partners from disclosing, publishing or referring to any certification or other writing or communication of the Company or of Saber Partners that refers to this certificate if all direct references to the Underwriter as a joint bookrunning underwriter are redacted or otherwise omitted from the text of such certification or other writing or communication of the Company or of Saber Partners.

Respectfully submitted,

[redacted]
as Underwriter

[redacted]

[redacted]
Senior Managing Director

APPENIDX A

Pricing Term Sheet

Free Writing Prospectus Filed under
Rule 433 Relating to Preliminary
Prospectus dated June 15, 2016 File Nos.
333-209196 and 333-209196-01

Duke Energy Florida Project Finance, LLC
(Issuing Entity)

Pricing Term Sheet
June 15, 2016

$1,294,290,000
Series A Senior Secured Bonds

Joint Book-Running Managers: [redacted]

Senior Co-Managers [redacted]

Provisional Ratings: "Aaa(sf)" / "AAA(sf)" / "AAAsf" by Moody's, S&P and Fitch, respectively(1)

Closing Date / Settlement Date: June 22, 2016(2)

Interest Payment Dates: March 1 and September 1 of each year, and on the final maturity date, commencing on March1, 2017

Applicable Time: 1:59PM (Eastern time) on June 15, 2016

Proceeds: The total price to the public is $1,294,238,713. The total amount of the underwriting discounts and commissions is $6,789,530. The total amount of proceeds to Duke Energy Florida Project Finance, LLC before deduction of expenses (estimated to be $9,163,470) is $1,287,449,183.

Series A Bonds	Expected Weighted Average Life (Years)	Principal Amount Issued	Scheduled Final Payment Date	Final Maturity Date	Interest Rate	Initial Price to Public(3)	Underwriting Discounts and Commissions	Proceeds to Issuer (Before Expenses)
Series A 2018	2.0	$ 183,000,000	March 1, 2020	March 1, 2022	1.196%	99.999%	0.25%	$ 182,540,670
Series A 2021	5.0	$ 150,000,000	September 1, 2022	September 1, 2024	1.731%	99.998%	0.40%	$ 149,397,000
Series A 2026	10.0	$ 436,000,000	September 1, 2029	September 1, 2031	2.538%	99.996%	0.50%	$ 433,802,560
Series A 2032	15.2	$ 250,000,000	March 1, 2033	March 1, 2035	2.858%	99.995%	0.65%	$ 248,362,500
Series A 2035	18.7	$ 275,290,000	September 1, 2036	September 1, 2038	3.112%	99.994%	0.70%	$ 273,346,453

(1) A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

(2) It is expected that the bonds will be delivered against payment for the bonds on or about June 22, 2016, which will be the fifth business day following the date of pricing of the bonds. Since trades in the secondary market generally settle in three business days, purchasers who wish to trade bonds on the date of pricing or the succeeding two business days will be required, by virtue of the fact that the bonds initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement.

(3) Interest on the bonds will accrue from June 22, 2016 and must be paid by the purchaser if the bonds are delivered after that date.

Series A Bonds	Benchmark Treasury	Benchmark Treasury Price and Yield	Spread to Benchmark Treasury
Series A 2018	UST 0.875% due May 31, 2018	100-97, 0.726%	47 bps
Series A 2021	UST 1.375% due May 31, 2021	101-5+, 1.131%	60 bps
Series A 2026	UST 1.625% due May 15, 2026	100-5, 1.608%	93 bps
Series A 2032	UST 1.625% due May 15, 2026	100-5, 1.608%	125 bps
Series A 2035	UST 2.500% due February 15, 2046	101-207, 2.422%	69 bps

Duke Energy Florida Project Finance, LLC and Duke Energy Florida, LLC have filed a registration statement (including a prospectus) with the Securities and Exchange Commission ("SEC") for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents Duke Energy Florida Project Finance, LLC and Duke Energy Florida, LLC have filed with the SEC for more complete information about Duke Energy Florida Project Finance, LLC and the offering. You may get these documents for free by visiting EDGAR on the SEC web site at www.sec.gov. Alternatively, Duke Energy Florida Project Finance, LLC, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling [redacted].

	Series A 2018	Series A 2021	Series A 2026	Series A 2032	Series A 2035
CUSIP:	26444G AA1	26444G AB9	26444G AC7	26444G AD5	26444G AE3
ISIN:	US26444GAA13	US26444GAB95	US26444GAC78	US26444GAD51	US26444GAE35

Expected Sinking Fund Schedule

Semi-Annual Payment Date	Series A 2018 Principal Balance	Series A 2021 Principal Balance	Series A 2026 Principal Balance	Series A 2032 Principal Balance	Series A 2035 Principal Balance
Closing Date	$ 183,000,000	$ 150,000,000	$ 436,000,000	$ 250,000,000	$ 275,290,000
March 1, 2017	147,300,000	150,000,000	436,000,000	250,000,000	275,290,000
September 1, 2017	120,300,000	150,000,000	436,000,000	250,000,000	275,290,000
March 1, 2018	91,968,362	150,000,000	436,000,000	250,000,000	275,290,000
September 1, 2018	66,819,301	150,000,000	436,000,000	250,000,000	275,290,000
March 1, 2019	38,167,849	150,000,000	436,000,000	250,000,000	275,290,000
September 1, 2019	12,697,061	150,000,000	436,000,000	250,000,000	275,290,000
March 1, 2020		133,721,958	436,000,000	250,000,000	275,290,000
September 1, 2020		107,883,912	436,000,000	250,000,000	275,290,000
March 1, 2021		78,473,209	436,000,000	250,000,000	275,290,000
September 1, 2021		52,163,338	436,000,000	250,000,000	275,290,000
March 1, 2022		22,276,781	436,000,000	250,000,000	275,290,000
September 1, 2022			431,486,993	250,000,000	275,290,000
March 1, 2023			401,419,122	250,000,000	275,290,000
September 1, 2023			374,328,724	250,000,000	275,290,000
March 1, 2024			343,548,495	250,000,000	275,290,000
September 1, 2024			315,736,958	250,000,000	275,290,000
March 1, 2025			284,226,703	250,000,000	275,290,000
September 1, 2025			255,676,143	250,000,000	275,290,000
March 1, 2026			223,417,756	250,000,000	275,290,000
September 1, 2026			194,109,843	250,000,000	275,290,000
March 1, 2027			161,084,768	250,000,000	275,290,000
September 1, 2027			131,000,718	250,000,000	275,290,000
March 1, 2028			97,189,941	250,000,000	275,290,000
September 1, 2028			66,310,505	250,000,000	275,290,000
March 1, 2029			31,694,550	250,000,000	275,290,000
September 1, 2029				250,000,000	275,290,000
March 1, 2030				214,357,231	275,290,000
September 1, 2030				181,556,335	275,290,000
March 1, 2031				144,928,619	275,290,000
September 1, 2031				111,133,282	275,290,000
March 1, 2032				73,491,827	275,290,000
September 1, 2032				38,669,301	275,290,000
March 1, 2033					275,290,000
September 1, 2033					239,255,018
March 1, 2034					199,408,169
September 1, 2034					162,192,506
March 1, 2035					121,146,581
September 1, 2035					82,613,161
March 1, 2036					40,324,274
September 1, 2036					

Duke Energy Florida Project Finance, LLC is obligated to pay fees to the servicer of $647,145 per annum (so long as the servicer is Duke Energy Florida, LLC) payable in installments on each payment date, plus reimbursable expenses.

On the Closing Date, Duke Energy Florida, LLC will deposit $6,471,450 into the capital subaccount as a capital contribution to Duke Energy Florida Project Finance, LLC, which is equal to 0.5% of the initial principal balance of the bonds.

The Duke Energy Florida, LLC return on invested capital is $201,392 per annum.

Subject to the terms and conditions in the underwriting agreement among Duke Energy Florida Project Finance, LLC, Duke Energy Florida, LLC and the underwriters, for whom [redacted] are acting as representatives, Duke Energy Florida Project Finance, LLC has agreed to sell to the underwriters, and the underwriters have severally agreed to purchase, the principal amount of the bonds listed opposite each underwriter's name below:

Underwriter	Series A 2018 Bonds	Series A 2021 Bonds	Series A 2026 Bonds	Series A 2032 Bonds	Series A 2035 Bonds	Total
[redacted]	$ 73,200,000	$ 60,000,000	$ 174,401,000	$ 100,001,000	$ 110,117,000	$ 517,719,000
[redacted]	73,200,000	60,000,000	174,401,000	100,001,000	110,117,000	517,719,000
[redacted]	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
[redacted]	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
[redacted]	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
[redacted]	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
[redacted]	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
[redacted]	6,100,000	5,000,000	14,533,000	8,333,000	9,176,000	43,142,000
Total	$ 183,000,000	$ 150,000,000	$ 436,000,000	$ 250,000,000	$ 275,290,000	$ 1,294,290,000

The underwriters may allow, and dealers may reallow, a discount not to exceed the percentage listed below for each tranche.

	Selling Concession	Reallowance Discount
Series A 2018	0.150%	0.050%
Series A 2021	0.240%	0.080%
Series A 2026	0.300%	0.100%
Series A 2032	0.390%	0.130%
Series A 2035	0.420%	0.140%

The costs of issuance of the Series A Senior Secured Bonds and other initial costs of the transaction, net of underwriting discounts and commissions, are expected to be approximately $9,163,470. An aggregate of approximately $455,000 of such costs are payable to the servicer in connection with set-up costs, including costs incurred in connection with establishing the issuing entity and building the necessary information technology systems, processes and reports.