

**ORIGINAL**

**BEFORE THE FLORIDA  
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 060088-EI  
FLORIDA POWER & LIGHT COMPANY**

**IN RE: FLORIDA POWER & LIGHT COMPANY'S PETITION FOR  
ISSUANCE OF A STORM RECOVERY FINANCING ORDER**

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**JANUARY 13, 2006**

**DIRECT TESTIMONY & EXHIBITS OF:**

**MORAY P. DEWHURST**

DOCUMENT NUMBER-DATE

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2                   **FLORIDA POWER & LIGHT COMPANY**

3                   **TESTIMONY OF MORAY P. DEWHURST**

4                   **DOCKET NO. XXXXXX-EI**

5                   **JANUARY 13, 2006**

6

7   **Q.    Please state your name and business address.**

8    A.    My name is Moray P. Dewhurst. My business address is Florida Power & Light  
9           Company, Finance Division, 700 Universe Boulevard, Juno Beach, Florida  
10          33408-0420.

11 **Q.    What is your employment capacity and position at Florida Power & Light**  
12 **Company?**

13   A.    I am Senior Vice President of Finance and Chief Financial Officer of Florida  
14          Power & Light Company (FPL or the Company).

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

16   A.    I am responsible for all the major financial areas of the Company, including the  
17          accounting and control functions, tax, treasury, budgeting and forecasting, and  
18          risk management. I oversee the establishment and maintenance of the financial  
19          plans, controls and policies for FPL. I am also responsible for establishing and  
20          maintaining effective working relations with the investment and banking  
21          communities, and for communicating the results of our operations to investors.

22 **Q.    Please describe your educational background and professional experience.**

1 A. I have a bachelor's degree in Naval Architecture from MIT and a master's degree  
2 in Management, with a concentration in finance, from MIT's Sloan School of  
3 Management. I have approximately twenty years of experience consulting  
4 Fortune 500 and equivalent companies in many different industries on matters of  
5 corporate and business strategy. Much of my work has involved financial  
6 strategy and financial re-structuring. I was appointed to my present position in  
7 July of 2001.

8 **Q. Are you sponsoring an exhibit in this case?**

9 A. Yes. I am sponsoring Document No. MPD-1, a summary of the Company's  
10 primary recommendation, MPD-2, a summary of the Company's alternative  
11 recommendation; and MPD-3, projected up-front issuance and ongoing costs for  
12 storm-recovery bonds.

13 **Q. What is the purpose of your testimony?**

14 A. The purpose of my testimony is to: (i) present and evaluate alternative methods to  
15 fund the existing Reserve deficit and future storm restoration activities; (ii)  
16 support the Petition for Financing Order (the Petition) requesting approval of the  
17 proposed issuance of bonds, which is FPL's primary recommendation requested  
18 in this proceeding, and if not approved, support of FPL's alternative  
19 recommendation requested in this proceeding; (iii) provide an overview of the  
20 Company's proposed securitization transaction; and (iv) provide an estimate of  
21 transaction costs, both upfront and ongoing.

22 **Q. Please identify the other FPL witnesses and summarize the purpose of their**  
23 **testimony filed on FPL's behalf in this proceeding.**

- 1 A. Following is a list of the other witnesses who have submitted testimony on behalf  
2 of FPL and a brief description of the general subject matter addressed by each  
3 witness:
- 4 • K. Michael Davis – Identification of total storm losses incurred for the 2004  
5 and 2005 storms; presentation of estimated storm-recovery costs subject to  
6 storm-recovery financing as of July 31, 2006; calculation of revenue  
7 requirements for storm cost recovery under the Company’s primary and  
8 alternative recommendations; proposal for a detailed framework for the true-  
9 up mechanism; and the accounting entries for storm-recovery financing;
  - 10 • Geisha J. Williams – Description of storm restoration activities and estimated  
11 storm-related costs for 2005;
  - 12 • Mark Warner - – Description of nuclear storm restoration activities and  
13 estimated nuclear storm- related costs for 2005;
  - 14 • Richard E. Brown - KEMA Inc. - Present the results of KEMA's independent  
15 analyses of FPL's infrastructure performance during Hurricane Wilma and of  
16 FPL's pole inspection and maintenance practices;
  - 17 • Leonardo E. Green, Ph. D. – Explanation of the sales and load forecast used to  
18 develop customer rates in the company’s primary and alternative  
19 recommendations;
  - 20 • Steven P. Harris, ABS Consulting – Estimate of the expected annual storm  
21 loss and solvency of the Reserve under the Company’s primary and  
22 alternative recommendations;

- 1 • Wayne Olson, Credit Suisse First Boston LLC – Overview of asset-backed  
2 securities and details of the key characteristics of the structure of the proposed  
3 securitization transaction; and
- 4 • Rosemary Morley – Separation and allocation of storm costs and the recovery  
5 factors to be used for billing individual rate classes; discussion of how the  
6 Storm Charge mitigates rate impacts as compared to the more traditional  
7 surcharge recovery method; presentation of proposed tariff sheets.

8  
9 **BACKGROUND**

10 **Q. Please briefly describe the circumstances that led to the adoption of the**  
11 **current Storm Restoration Surcharge.**

12 A. The 2004 storm season inflicted severe damage on FPL's service territory and the  
13 electric infrastructure. As a result, costs incurred to restore electric service  
14 following Hurricanes Charley, Frances, and Jeanne, in the aggregate totaled \$890  
15 million (net of insurance proceeds), depleting in its entirety FPL's storm and  
16 property insurance reserve (Reserve) and, leaving FPL's Reserve with a  
17 substantial deficit. In Order No. PSC-05-0937-FOF-EI, the Commission affirmed  
18 the surcharge it had approved on a provisional basis in Docket No. 041291-EI that  
19 was effective February 17, 2005, but extended the term an additional twelve  
20 months or through cycle 12 billing for February 2008, unless all costs are  
21 recovered sooner. The approved surcharge of \$1.65 (per 1,000 kWh residential  
22 bill) is intended to eliminate the deficit in the Reserve caused by the 2004 storm  
23 season.

1 **Q. What effect did the 2005 storm season have on the Reserve?**

2 A. In 2005, another very active storm season, four Hurricanes inflicted damage on  
3 FPL's system. As discussed by Ms. Williams and Mr. Davis, restoration costs  
4 associated with Hurricanes Dennis, Katrina, Rita and Wilma have increased the  
5 Reserve deficiency by approximately \$816 million, leaving a deficit balance in  
6 the Reserve in excess of \$1.1 billion. The current Storm Restoration Surcharge is  
7 designed to recover approximately \$300 million of that amount by February 2008,  
8 leaving approximately \$800 million, to be recovered through another means, as  
9 well as the open question of how best to restore the Reserve to a reasonable level  
10 going forward.

11 **Q. Please explain how the Company had proposed to replenish the Reserve to a**  
12 **reasonable level in its application for a base rate increase in Docket No.**  
13 **050045-EI.**

14 A. In its base rate case filing, the Company had proposed to increase the annual  
15 accrual in base rates to \$120 million. The total accrual was comprised of an  
16 amount approximating the expected annual storm losses based on an analysis  
17 performed by Steve Harris of ABS Consulting, Inc., plus an amount to contribute  
18 toward restoring the Reserve balance to a level of \$500 million.

19 **Q. How did the Stipulation and Settlement Agreement signed by parties to**  
20 **FPL's base rate proceeding and approved by the Commission (Settlement**  
21 **Agreement) address the issues of storm cost recovery and the replenishment**  
22 **of the Reserve?**

1 A. The Settlement Agreement: (1) suspends the then current base rate accrual of  
2 \$20.3 million; (2) provides that FPL will be entitled to recover prudently incurred  
3 storm restoration costs and replenish the Reserve to a level approved by the  
4 Commission; and (3) allows recovery of prudently incurred storm restoration  
5 costs and replenishment of the Reserve through charges that are incremental to  
6 base rates, either through a charge established through Section 366.8260, Florida  
7 Statutes (Securitization) or another form of surcharge.

8 **Q. What was the Commission's response to this aspect of the Settlement?**

9 A. The Commission approved it as part of the overall settlement, but expressed some  
10 discomfort over the continuing deficit in the Company's Reserve and at the  
11 prospect of leaving that proceeding without a current plan in place to replenish the  
12 Reserve to a reasonable level. The Commission strongly encouraged the  
13 Company to return with such a proposal as soon as possible, to which we agreed.  
14 This filing seeks to address the Commission's concerns.

15

16 **PRIMARY RECOMMENDATION**

17 **Q. Please detail the Company's primary recommendation and its request in**  
18 **connection with this filing.**

19 A. FPL recommends that the Commission approve the issuance of up to \$1,050  
20 million storm-recovery bonds to finance the after-tax costs incurred as a result of  
21 the 2004 and 2005 storms. The proceeds from the bond issuance would be used  
22 to fund the balance of unrecovered 2004 and 2005 storm-recovery costs, replenish  
23 the Reserve and pay upfront bond issuance costs. The amortization of the bonds



1 would be structured to provide a level charge of approximately \$1.58 for the  
 2 typical residential bill (1,000 kWh) over the expected bond life of twelve years  
 3 based on current market conditions. Upon issuance of the storm-recovery bonds,  
 4 this charge would replace the existing 2004 Storm Restoration Surcharge.

5 **Q. Please detail the amounts FPL is seeking approval to finance through the**  
 6 **issuance of storm-recovery bonds?**

7 A. FPL proposes to finance the costs incurred for storm restoration with the issuance  
 8 of storm-recovery bonds which would be used to finance the after-tax equivalent  
 9 of the following estimated amounts:

	<u>\$ Millions</u>
11 2004 Jurisdictionalized Unrecovered Storm-Recovery Costs	213.3
12 2005 Jurisdictionalized Unrecovered Storm-Recovery Costs	826.9
13 Replenishment of Reserve	<u>650.0</u>
14 Total Storm –related Costs Subject to Storm Recovery Financing	1,690.2
15 Less: Income Taxes at 38.575%	<u>(652.0)</u>
16 After-tax Storm-related Costs Subject to Storm Recovery	
17 Financing	<u>1,038.2</u>

18 Mr. Davis’ and Ms. Williams’ testimonies provide further detail on the  
 19 calculation of estimated unrecovered 2004 and 2005 storm-recovery costs. My  
 20 testimony will address the estimated financing costs, and the replenishment of the  
 21 Reserve.

22 **Q. What amount of storm-recovery bonds would be required to finance the**  
 23 **amounts described above?**

1 A. The Company anticipates the issuance of \$1,050 million in storm-recovery bonds  
2 which is comprised of the after-tax storm-recovery costs and costs to replenish the  
3 Reserve plus estimated upfront bond issuance costs of approximately \$11.4  
4 million. The resulting \$1,049.6 million is rounded to \$1,050 million. Bonds are  
5 issued for the after-tax value of costs subject to financing to recognize the tax  
6 benefit received when storm restoration costs are deducted for income tax  
7 purposes. Thus, the bond proceeds available after the payment of upfront bond  
8 issuance costs provides approximately \$638 million to reimburse the Company  
9 for unrecovered storm costs and approximately \$400 million to replenish the fund  
10 (the after-tax equivalent of a \$650 Reserve). Upfront bond issuance costs are  
11 described in more detail later in my testimony and in the testimony of Mr. Olson.

12 **Q. What would be the impact to customers if the Commission approves FPL's**  
13 **primary recommendation?**

14 A. The current residential surcharge of \$1.65 per 1,000 kWh would be replaced with  
15 the combination of a Storm Bond Repayment Charge and a Storm Bond Tax  
16 Charge referred to collectively as the Storm Charge, which under current market  
17 conditions would provide an estimated levelized charge of approximately \$1.58  
18 per month for a typical 1,000 kWh residential bill for approximately 12 years.  
19 The actual average retail charge per kWh will vary based on changes in customer  
20 growth and usage projections as well as changes in market interest rates that may  
21 occur between now and the issuance date of the bonds. If market rates rise to  
22 such an extent that the average retail kWh charge associated with the bond  
23 issuance would exceed the average retail kWh charge associated with the Storm

1 Restoration Surcharge now in effect, the aggregate amount of the storm-recovery  
2 bond issuance would be reduced to an amount whereby the initial average retail  
3 kWh Storm Charge would not exceed the average retail kWh Storm Restoration  
4 Surcharge currently in effect. While this would reduce the amount of Reserve  
5 replenishment, it strikes a reasonable balance between customer interests in the  
6 mitigation of rate impacts and the need to fund the Reserve to a reasonable level  
7 immediately to prepare FPL to respond to another potentially destructive 2006  
8 storm season.

9  
10 The calculation of the revenue requirements associated with the Storm Bond  
11 Repayment Charge and the Storm Bond Tax Charge as well as the periodic true-  
12 up mechanism for those charges is discussed in Mr. Davis' testimony and the  
13 calculation of the customer rate impact of the Storm Charge is provided in Dr.  
14 Morley's testimony. Document No. MPD-1 provides a summary of these  
15 calculations as well as the expected value in the Reserve over a ten-year period  
16 assuming the expected annual losses from windstorm damage provided by Mr.  
17 Harris.

18 **Q. When would the storm-recovery bonds be issued?**

19 A. FPL recommends the storm-recovery bonds be issued as soon as practicable  
20 following issuance of the financing order, and will work to do so prior to August  
21 1, 2006 to ensure funding is in place during the next storm season. FPL's balance  
22 sheet and liquidity position are strong, but it is critical that a mechanism for  
23 recovery of 2004 and 2005 storm restoration costs is in place before significant

1 new costs might be incurred in 2006. The exact issuance date cannot be  
2 determined at this time and depends on factors such as acceptance by the  
3 Securities and Exchange Commission (SEC) of certain filings and completion of  
4 the bond ratings and marketing process.

5 **Q. What if the Commission issues a financing order, but there is a delay in**  
6 **actually implementing the financing?**

7 A. In light of the size of the current deficit and the need to begin to reduce the deficit  
8 and rebuild the Reserve to prepare for another potentially active storm season, the  
9 Company recommends that the Commission approve a surcharge to be applied to  
10 bills rendered on and after August 15, 2006 to recover the 2005 storm-restoration  
11 costs over approximately three years (or until the applicable revenue requirements  
12 have been recovered) in the event the issuance of storm-recovery bonds is delayed  
13 for any reason. The monthly impact to residential customers of this surcharge is  
14 currently estimated to be \$2.98 per 1,000 kWh based on current estimates for  
15 2005 storm restoration costs. The surcharge would be discontinued when the  
16 storm-recovery bonds are issued. The amount of storm-recovery bonds issued  
17 would be adjusted for the impact of collections of this surcharge.

18 **Q. How does the Company propose to account for differences between the**  
19 **estimated balances for unrecovered 2004 and 2005 storm-recovery costs as of**  
20 **July 31, 2006 included in the Company's Petition and the actual unrecovered**  
21 **2004 and 2005 storm-recovery costs on the date the storm-recovery bonds**  
22 **are issued?**

1 A. The actual balance of unrecovered storm-recovery costs will be influenced by  
2 several factors including: actual versus forecast surcharge collections for the  
3 existing surcharge, actual versus projected commercial paper rates, differences  
4 resulting from the actual versus estimated bond issuance date, as well as changes  
5 in estimated 2005 storm-recovery costs. The Company proposes that any  
6 differences between the estimated and actual balances for unrecovered 2004 and  
7 2005 storm-recovery costs be reflected in the amount of replenishment of the  
8 Reserve. Thus, if the actual balance of unrecovered 2004 and 2005 storm-  
9 recovery costs is below the estimated July 31, 2006 balance, the resulting balance  
10 in the Reserve will be higher and vice versa.

11 **Q. Please detail how bond proceeds would be used.**

12 A. Bond proceeds must first be used to pay upfront bond issuance costs associated  
13 with the bond financing. Proceeds would next be used to reimburse the Company  
14 for the after-tax equivalent of the remaining unrecovered 2004 Reserve deficit  
15 plus the actual unrecovered 2005 storm restoration costs. Remaining proceeds  
16 would be used to replenish the fund depleted as a result of costs previously  
17 incurred.

18

19 **ALTERNATIVE RECOMMENDATION**

20 **Q. Does FPL have an alternative recommendation if the Commission does not**  
21 **approve a financing order for the issuance of storm-recovery bonds?**

22 A. Yes. If the Commission determines that the storm restoration costs should not be  
23 securitized and instead should be recovered through another means, the Company

1 recommends that a surcharge be implemented to recover estimated 2005 storm  
2 restoration costs over approximately three years and a separate surcharge be  
3 implemented to collect \$650 million toward replenishment of the Reserve over  
4 three years (or until such time as the applicable revenue requirements have been  
5 collected) for bills rendered on and after June 15, 2006. This alternative provides  
6 for recovery of storm restoration costs already incurred and provides funds to  
7 attempt to replenish the Reserve over a reasonable time frame. While the rate  
8 impact on customer bills is greater than under the Company's primary  
9 recommendation, it is for a shorter duration. Like the Company's primary  
10 recommendation, this option also is provided for under the Settlement Agreement.

11 **Q. What would be the impact to customers if the Commission selects FPL's**  
12 **alternative recommendation?**

13 **A.** The alternative recommendation would result in an initial monthly charge of  
14 \$6.84 for a typical 1,000 kWh residential customer bill. This charge would  
15 decline to \$5.19 once the 2004 Storm Restoration Surcharge ends. The  
16 calculation of the revenue requirements associated with the alternative  
17 recommendation is provided in Mr. Davis' testimony and the calculation of the  
18 customer rate impact related to the surcharges is provided in Dr. Morley's  
19 testimony. Document No. MPD-2 provides a summary of these calculations as  
20 well as the expected value of the Reserve over time based on Mr. Harris' analysis.

21  
22  
23

1                   **REPLENISHMENT OF THE STORM DAMAGE RESERVE**

2   **Q.    Has FPL performed a study to determine the annual amount of expected**  
3           **losses from windstorms?**

4    A.    Yes. FPL commissioned studies to calculate the annual amount of expected  
5           windstorm losses, as well as the expected value of the Reserve given various  
6           funding levels. The studies were prepared by ABS Consulting and are being  
7           sponsored by Mr. Harris.

8   **Q.    What does the analysis conclude regarding the expected annual long-term**  
9           **cost for service restoration and repair of storm damage to FPL's assets?**

10   A.    Mr. Harris' analysis concludes that the expected average annual cost for  
11           windstorm losses is approximately \$73.7 million. Windstorm losses include costs  
12           associated with service restoration and system repair of FPL's Transmission and  
13           Distribution (T&D) system from hurricane, tropical and winter storm losses. Also  
14           included are storm staging costs and windstorm insurance deductibles attributable  
15           to non-T&D assets.

16   **Q.    Have these studies been updated to incorporate the frequency of storm**  
17           **activity experienced during the 2004 and 2005 storm seasons?**

18   A.    No. As discussed in Mr. Harris' testimony, the studies are based on over 100  
19           years of storm activity (1900-2002). Mr. Harris has concluded that while there  
20           might be a slight increase in the storm frequency estimate if data from the 2004  
21           and 2005 storm seasons were included, the increase is not likely to be large given  
22           the size of the storm database.

1 **Q. Are there any other circumstances that could increase FPL's expected**  
2 **annual losses?**

3 A. Yes. Growth in the Company's transmission and distribution system over the past  
4 year, particularly in the coastal areas most vulnerable to damage increases the  
5 company's exposure to storm damage. In addition, changes in the insurance  
6 markets affecting the availability and affordability of insurance coverage would  
7 impact expected annual losses. Mr. Harris' analysis assumes no T&D insurance  
8 is available and that non-T&D insurance deductibles remain stable. After the  
9 very active storm seasons of 2004 and 2005, there is little likelihood that the  
10 insurance markets will offer T&D insurance in the foreseeable future. In addition,  
11 early indications from the market suggest that non-T&D windstorm insurance  
12 may be less available, or may require higher deductibles in the future. If this were  
13 to happen, any deductible increase or any diminution in non-T&D windstorm  
14 insurance would increase the storm damage costs to be charged to the Reserve.

15 **Q. Does Mr. Harris' analysis recommend a particular Reserve level?**

16 A. No. There is no single correct Reserve balance. The appropriate Reserve level  
17 depends largely on the regulatory framework for storm cost recovery. Obviously,  
18 the lower the Reserve balance, the more likely that storm losses will exceed the  
19 funds available in the Reserve and, therefore, the greater the reliance on special  
20 assessments. The higher the Reserve balance, the less likely windstorm losses  
21 will exceed the funds available in the Reserve. Mr. Harris' testimony evaluates  
22 the solvency of the Reserve under the Company's primary and alternative  
23 recommendations.



1 **Q. What level of replenishment of the Reserve is included in the Company's**  
2 **recommendation?**

3 A. Consistent with past Commission Orders, a reserve level should be large enough  
4 to withstand the storm damage from most but not all storm seasons. The  
5 Company's proposed issuance of storm-recovery bonds would provide an initial  
6 Reserve of approximately \$650 million to support future storm restoration  
7 activities.

8  
9 Although a Reserve of \$650 million is not necessarily what the Company would  
10 project as an adequate Reserve level going forward, weighing a number of factors  
11 including (i) an expected average annual cost for windstorm losses of  
12 approximately \$73.7 million as determined by FPL's outside expert Mr. Harris,  
13 (ii) the possibility that Florida is in the midst of a much more active hurricane  
14 period relative to average levels of activity over the much longer term, (iii) the  
15 potentially diminished availability of non-T&D property insurance, (iv) the  
16 impact of the recent severe and unprecedented storm seasons on customer bills in  
17 the near term, and (v) the opportunity to revisit this issue in future proceedings,  
18 establishing a Reserve level of approximately \$650 million is reasonable at this  
19 time.

20 **Q. Do either of the Company's recommendations eliminate the possibility of**  
21 **special assessments for future storm damage?**

22 A. No. Without an annual surcharge or accrual to fund ongoing storm restoration  
23 costs, the Reserve naturally will decline over time as costs are charged against the

1 Reserve. If we are fortunate enough to experience a few years of below average  
2 storm losses, the Reserve may be sufficient to avoid an additional surcharge or  
3 securitization during that period of time. However, Mr. Harris' analysis  
4 concludes that the expected value of the Reserve under the Company's primary  
5 recommendation would be approximately \$350 million after five years and that  
6 there would be a 17% chance that the Reserve would be insufficient at some point  
7 over the next five years to fund required storm restoration costs. He also  
8 concludes that the expected value of the Reserve under the Company's alternative  
9 recommendation would be approximately \$300 million after five years and with  
10 an 18% chance that the Reserve would be insufficient to fund restoration costs at  
11 some point over the next five years. In addition, the primary recommendation  
12 would be expected to have a lower probability of Reserve insolvency than the  
13 alternative recommendation during the initial three years due to its higher  
14 expected Reserve balances. Of course, future storm activity will dictate the  
15 necessity for any type of special assessments or additional issuances of storm-  
16 recovery bonds.

## 17

### 18 POLICY ISSUES

19 **Q. What are the key policy considerations underlying any storm cost recovery**  
20 **framework?**

21 A. First, storm restoration is a cost of providing electric service in Florida and,  
22 therefore, properly recoverable through the rates and charges of the Company.

23 This principle is clearly acknowledged in past Commission treatment of storm

1 restoration costs and is addressed directly in the Settlement Agreement. While we  
2 cannot predict with certainty when storms will occur, we can predict with virtual  
3 certainty that tropical storms and hurricanes will affect our service territory and  
4 we will incur costs for restoring power. However, those costs are not reflected in  
5 the Company's base rates. Previously, a small portion, i.e., \$20.3 million, of the  
6 expected annual losses were reflected in base rates. To have attempted to reflect  
7 in base rates the expected average annual cost of storm restoration plus an amount  
8 sufficient to replenish the Reserve in a reasonable period of time would have  
9 required a base rate increase of \$100 million. Instead, the Settlement Agreement  
10 held base rates constant and moved all such costs outside of the Company's base  
11 rates for recovery through a charge associated with Securitization or another form  
12 of surcharge to recover the cost of restoring power in the wake of storms.

13  
14 Second, each 'generation' of customers should contribute to the cost of storm  
15 restoration, even if no storm strikes in a particular year. Since storms will occur  
16 and only their timing is uncertain, the true cost of providing electric service  
17 should include an allowance for some level of restoration activity.

18  
19 Third, however, "pre-funding" restoration costs sufficient to cover an extreme  
20 sub-period of storm activity (i.e., building up a Reserve sufficient to cover  
21 virtually all storm restoration) is likely to be economically inefficient. Thus,  
22 some mechanism for recovery of the prudently incurred costs that exceed the  
23 Reserve is required.

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Each of these principles has been reflected, expressly or implicitly, in prior Commission decisions relative to the establishment of the Reserve and the recovery of storm restoration costs.

**Q. Please describe the principal components of the Commission’s approach to storm cost recovery.**

A. Prior to Hurricane Andrew, FPL had a small Reserve and maintained commercial insurance coverage for its T&D network. The costs of carrying this insurance were recovered through base rates. The cost of storm restoration, therefore, was borne by customers over time largely through the cost of insurance included in the Company’s base rate charge.

Following Andrew, commercial insurers withdrew from the market. In the absence of commercial coverage, the Company established and the Commission consistently endorsed an overall framework that consists of three main parts: (1) an annual storm accrual, adjusted over time as circumstances change; (2) a Reserve adequate to accommodate most but not all storm years; and (3) a provision for utilities to seek recovery of costs that go beyond the Reserve. The regulatory framework is designed to provide the flexibility to prevent unbounded growth of the storm fund during extended periods of extremely low storm activity as well as provide for supplemental recovery of deficits in the Reserve during periods of high storm activity.

1           These three parts act together to allow FPL over time to recover the costs of storm  
2 restoration, while at the same time balancing competing customer interests,  
3 namely: holding the ongoing impact to reasonable levels; reducing the volatility  
4 in customer bills which occurs when the Reserve is insufficient; and promoting  
5 intergenerational equity. This balance requires periodic adjustment in the main  
6 components of the framework – the annual charge and the appropriate Reserve  
7 balance – in light of changing storm experience and the growth of FPL’s T&D  
8 network. The annual charge can be reduced if a period of favorable loss  
9 experience leads to an excessive build-up in the Reserve level, while, conversely,  
10 a period of unfavorable loss experience will lead to depletion of the Reserve and a  
11 need to increase the annual charge.

12 **Q. Please summarize your understanding of the Commission’s policy on the**  
13 **appropriate Reserve balance.**

14 A. The Commission’s policy, as articulated in Order Nos. PSC-95-1588-FOF-EI,  
15 PSC-95-0264-FOF-EI and PSC-98-0953-FOF-EI, is to determine a Reserve  
16 balance that is sufficient to protect against most years’ storm restoration costs, but  
17 not the most extreme years. Such a level should reduce dependence on a relief  
18 mechanism such as a special customer assessment. Obviously, the lower the  
19 Reserve balance, the more likely that storm losses will exceed the funds available  
20 in the Reserve and therefore the greater the reliance on special assessments. The  
21 higher the Reserve balance, the less likely windstorm losses will exceed the funds  
22 available in the Reserve.

1 **Q. How do the Company’s primary and alternative recommendations comport**  
2 **with the Commission’s framework for storm cost recovery and the policy**  
3 **objectives you have described?**

4 A. While the two requests present some differences, most notably in the time period  
5 over which recovery is accomplished, fundamentally each is consistent with the  
6 general framework established by the Commission. Both approaches allow the  
7 recovery of costs to provide electric service. Likewise, both requests will help to  
8 ensure adequate funding for future storm restoration while minimizing the need  
9 for additional special assessments. The one principal difference, as I noted, is that  
10 securitization allows the costs of a sub-period of extreme storm activity to be  
11 “smoothed” and borne by customers over a longer time frame, thus mitigating the  
12 rate impact on current customers. In addition, the Company’s primary  
13 recommendation provides immediate replenishment of the Reserve in time for the  
14 next storm season.

15 **Q. Did the passage of Section 366.8260, Florida Statutes, which provides for the**  
16 **issuance of storm-recovery bonds alter the current framework for storm cost**  
17 **recovery?**

18 A. No. Section 366.8260 simply provides the Commission with an additional option  
19 for recovery of storm restoration costs that have exceeded the Reserve and for  
20 replenishment of the Reserve. Under Section 366.8260, recovery of deficits and  
21 replenishment of the Reserve would be achieved through the issuance of storm-  
22 recovery bonds which are repaid by customers through a non-bypassable charge.

1 Q. What are the comparative benefits of securitization relative to the  
2 conventional surcharge?

3 A. A primary benefit of securitization is the ability to immediately replenish the  
4 Reserve and to “smooth out” the rate impact of an extreme sub-period of storm  
5 activity making it a useful tool for recovery of existing deficits and replenishment  
6 of the Reserve.

7  
8 In contrast to storm-recovery bonds, a surcharge is well suited for funding annual  
9 expected losses and maintaining the Reserve because it can be adjusted over time  
10 if actual storm losses are significantly higher or lower than expected over an  
11 extended period. A short-term, temporary surcharge can be a cost-effective means  
12 to collect a deficit over a short time frame, although the impact to customer bills  
13 will be greater. Further, one cannot achieve the same bill smoothing impact, as  
14 with securitization, simply by extending the surcharge. To do so would not be  
15 cost effective because deficits over a longer time frame must be financed with a  
16 balanced mix of debt and equity to maintain credit quality.

17  
18 Thus, practical circumstances then existing will determine whether securitization  
19 or a more conventional short-term surcharge is preferable. In light of the  
20 significant impact of the 2004 and 2005 storm seasons and the need to quickly  
21 replenish the Reserve in preparation for potentially more active storm seasons in  
22 the coming years, the Company’s recommendation is that the issuance of storm-

1 recovery bonds is preferable at this time to conventional surcharge recovery for  
2 storm costs.

3  
4 As provided in Document No. MPD-1, the monthly charge associated with the  
5 issuance of storm-recovery bonds in the Company's primary recommendation is  
6 estimated to be \$1.58 for a typical (1,000 kWh) residential bill over the life of the  
7 bonds. The Company's alternative recommendation, which provides for recovery  
8 over a three-year period in a more traditional manner, would have an initial  
9 monthly customer impact of \$6.84 for a typical (1,000 kWh) residential bill as  
10 shown in Document No. MPD-2. The impact will decline to \$5.19 for a typical  
11 (1,000 kWh) residential bill once the surcharge for the 2004 storm season has  
12 been collected. Thus, while the more traditional approach to cost recovery  
13 reflected in FPL's alternative recommendation certainly is workable, the issuance  
14 of storm-recovery bonds would avoid or significantly mitigate rate impacts to  
15 customers while at the same time more quickly positioning the Company to  
16 respond to another potentially active storm season.

17  
18 **EVALUATION OF ALTERNATIVES**

19 **Q. What other alternatives did the Company consider before making its**  
20 **recommendation?**

21 A. The Company considered three other alternatives for storm cost recovery: 1)  
22 continuation of the current Storm Restoration Surcharge to recover the 2004  
23 storm deficit, 2005 storm restoration costs and to replenish the Reserve; 2)



1 keeping the current Storm Restoration Surcharge for recovery of 2004 storm costs  
2 in place, establishing a new surcharge for 2005 storm restoration costs, and  
3 utilizing securitization to replenish the Reserve; and 3) keeping the current Storm  
4 Restoration Surcharge for recovery of the 2004 storm costs in place while  
5 utilizing securitization to recover all 2005 storm restoration costs and to replenish  
6 the Reserve.

7 **Q. Please describe each of the alternatives that were evaluated by the Company**  
8 **and explain why the Company's recommendation should be adopted in favor**  
9 **of these alternate approaches.**

10 **A. Alternative 1 – Continue Existing Surcharge**

11 The existing storm surcharge would continue until changed by a future  
12 proceeding. The surcharge would be applied to jurisdictional storm costs as  
13 follows: first to unrecovered 2004 storm costs, next to unrecovered 2005 storm  
14 costs, and finally to replenish the Reserve.

15

16 This alternative maintains an ongoing levelized customer charge and funds losses  
17 and replenishes the Reserve through an annual surcharge. However, given the  
18 size of the current deficit from the 2004 storm season and the additional  
19 restoration costs from the 2005 storm season, this alternative is not a feasible  
20 solution as it would take over ten years to recover the storm restoration costs that  
21 have already been incurred without providing any funding for ongoing future  
22 storm restoration activities. The current deficit would need to be funded with a  
23 balance of debt and equity required to maintain the company's current credit

1 quality and free up short-term liquidity to support ongoing operational  
2 requirements such as the fuel hedging program, construction program and clause  
3 underrecoveries, making this alternative more costly to customers compared to  
4 issuing storm-recovery bonds. FPL does not believe this is a practical or desirable  
5 alternative given the costs of the 2005 storm season and the need to prepare for  
6 another potentially strong storm season.

7 **Alternative 2 – Surcharge for 2004 and 2005 Costs, Securitize Reserve**  
8 **Replenishment**

9 Under this alternative, the current Storm Restoration Surcharge would remain in  
10 place to recover 2004 storm restoration costs. A new three-year surcharge would  
11 provide for recovery of 2005 storm restoration costs. Replenishment of the  
12 Reserve would be accomplished through the issuance of approximately \$400  
13 million (the after-tax equivalent of \$650 million Reserve) of storm-recovery  
14 bonds.

15  
16 While this alternative would provide a viable method of funding restoration costs  
17 and replenishment of the Reserve, it has a larger up-front rate impact to  
18 customers. Under the circumstances, FPL considered it to be less attractive than  
19 the Company's primary recommendation.

20 **Alternative 3 – Continue existing surcharge for 2004 costs, Securitize 2005**  
21 **Storm Costs and Reserve Replenishment**

22 Under this alternative, the current Storm Restoration Surcharge would remain in  
23 place to recover 2004 storm restoration costs. The Company would issue storm-

1 recovery bonds of approximately \$900 million to fund the after-tax equivalent of  
2 2005 unrecovered restoration costs of \$827 million as well as to replenish the  
3 Reserve to \$650 million.

4  
5 Similar to alternative 2, the Company considers this alternative to be a viable  
6 method to recover the current deficit and replenish the Reserve, but feels the  
7 Company's recommendation provides for recovery of costs with less impact to  
8 customer rates.

9  
10 **FPL'S PROPOSED STORM-RECOVERY BOND TRANSACTION**

11 **Q. Please provide an overview of FPL's proposed Storm Recovery Bond**  
12 **issuance.**

13 A. FPL will form a bankruptcy-remote special purpose entity (SPE) to acquire storm-  
14 recovery property and issue and sell the storm-recovery bonds. This SPE will be  
15 capitalized by FPL in an amount equal to at least 0.50% of the storm-recovery  
16 bond issuance amount. FPL's capital contribution will be deposited into a Capital  
17 Subaccount, which allows the utility to treat the bond issuance as a financing for  
18 tax purposes and it also acts as a credit enhancement mechanism. As described in  
19 Mr. Olson's and Mr. Davis' testimony, under a recently promulgated Internal  
20 Revenue Services procedure (2005-62), a 0.50% equity contribution will be  
21 sufficient to assure this desired tax treatment. This capital contribution will be  
22 made available to cover any shortfalls in storm-recovery charges and to make

1 payments on the storm-recovery bonds, if necessary. This equity contribution  
2 will be returned to the Company at the time the bonds are paid in full.

3  
4 FPL will receive the net proceeds after the payment of issuance costs from the  
5 bond issuance. The proceeds will be used to reimburse the Company for  
6 unrecovered storm-recovery costs with the remaining proceeds (estimated at  
7 approximately \$400 million) being deposited in the fund. FPL, in its role as  
8 Servicer, will collect an irrevocable, non-bypassable Storm Bond Repayment  
9 Charge to recover the amounts necessary to pay principal and interest on the  
10 storm-recovery bonds as well as ongoing costs (excluding taxes) associated with  
11 the transaction from its customers. FPL will also collect a Storm Bond Tax  
12 Charge to recover any income taxes associated with the Storm Bond Repayment  
13 Charge. FPL will transfer the Storm Bond Repayment Charges deemed collected  
14 to a collection account at the SPE on a daily basis. (FPL's role as Servicer, will  
15 be discussed further in Mr. Olson's testimony). The SPE will then apply the  
16 collections to the general subaccount for distribution to bondholders and other  
17 parties in accordance with a priority of payments (or waterfall) for the payment of  
18 principal and interest on the bonds and other ongoing costs (described below),  
19 such as servicing fees, legal and accounting costs, trustee fees, rating agency fees,  
20 and administrative costs. Mr. Olson's testimony provides more detail on the  
21 payment waterfall.

22 **Q. Please describe the terms of the storm-recovery bonds.**

1 A. The storm-recovery bonds will likely be issued in multiple tranches with varying  
2 maturities to attract a greater number of investors. The targeted rating on the  
3 bonds will be triple – A. Exact pricing, interest rates, terms, tranches and other  
4 characteristics will be determined at the time of issuance and will depend on  
5 prevailing market conditions.

6 **Q. When are the storm-recovery bonds expected to be issued?**

7 A. The storm-recovery bonds are expected to be issued after all of the following  
8 events have occurred: 1) issuance of a financing order (and expiration of appeals  
9 period); 2) delivery of necessary SEC approvals under the Securities and  
10 Exchange Act of 1933; and 3) completion of the rating agency process.

11 **Q How will the storm-recovery bonds be sold?**

12 A. The bonds can be sold either through a competitive bidding process or a  
13 negotiated sale. The Company is indifferent at this time as to which method is  
14 preferable. The decision as to which method may be preferable is dependent on  
15 factors such as issue size, complexity of issue, and current market conditions,  
16 some of which are not known with certainty at this time. The upfront bond  
17 issuance cost estimates below include an estimate for underwriting fees. If the  
18 bonds are subsequently sold through a competitive bidding process, the  
19 underwriting fee would not be an itemized cost, but would be included in the  
20 price of the bonds.

21 **Q. Please provide a description of the upfront bond issuance costs which will be**  
22 **financed with the proceeds of the storm-recovery bonds?**

1 A. Upfront bond issuance costs, which will be financed from the proceeds of the  
2 storm-recovery bonds, include the fees and expenses to obtain the financing order,  
3 as well as the fees and expenses associated with the structuring, marketing and  
4 issuance of each series of storm-recovery bonds, including counsel fees, structural  
5 advisory fee, underwriting fees (if the bonds are sold through a negotiated sale)  
6 and original issue discount, rating agency and trustee fees (including trustee's  
7 counsel), accounting and auditing fees, printing and marketing expenses, stock  
8 exchange listing fees and compliance fees, filing fees, and the costs of any  
9 financial advisor retained by the Commission. Upfront bond issuance costs  
10 include reimbursement to the Company for amounts advanced for payment of  
11 such costs.

12 **Q. Please provide an estimate of these upfront bond issuance costs.**

13 A. The Company estimates the upfront bond issuance costs associated with its  
14 recommended \$1,050 million in storm-recovery bonds to be approximately \$11.4  
15 million if the bonds are sold through a negotiated sale. If the bonds are sold  
16 through a competitive bid, the underwriting fees will be embedded in the interest  
17 rate offered on the bond. Document No. MPD-3 provides a breakdown of these  
18 estimated costs. The Company reviewed several stranded cost recovery  
19 securitization filings made by other utilities and developed an estimate of upfront  
20 bond issuance costs with the assistance of our financial advisor. These numbers  
21 are subject to change, as the costs are dependent on the timing of issuance, market  
22 conditions at the time of issuance, the outcome of competitive pricing solicitations

1 for certain fees and other events outside the control of the Company, such as  
2 possible litigation, possible review by the SEC and rating agency requirements.

3 **Q. How will the Company reconcile actual upfront bond issuance costs with the**  
4 **estimates provided by the Company since the actual costs will not be known**  
5 **until after the Commission issues the Financing Order and the storm-**  
6 **recovery bonds have been issued?**

7 A. The proceeds of the storm-recovery bond issuance will be used to pay (or  
8 reimburse the Company for) the actual upfront bond issuance costs incurred. If  
9 the actual upfront bond issuance costs are below the \$11.4 million estimated in  
10 the financing order, then the difference will be added to the Reserve and vice  
11 versa. Not later than 120 days following issuance, the Company will file with the  
12 Commission a reconciliation of actual upfront bond issuance costs with estimated  
13 amounts provided for in the storm-recovery bond issuance. The Commission  
14 shall review such information and may require the Company to make a  
15 contribution to the Reserve in accordance with Section 366.8260(2)(b)(5).

16 **Q. Please describe the estimated ongoing costs (excluding debt service) which**  
17 **will be recovered from the Storm Bond Repayment Charge.**

18 A. In addition to debt service on the storm-recovery bonds (and any swap or other  
19 hedging costs), there will be expenses that will be incurred throughout the life of  
20 the Bonds in order to support the ongoing operation of the SPE. These ongoing  
21 costs are estimated at \$850,000 annually, as set forth the in Document No. MPD-  
22 3, and include servicing fees, legal and accounting costs, trustee fees, rating  
23 agency fees, administrative costs, the costs of funding any reserves (such as

1 replenishment of the capital account) and miscellaneous other fees associated with  
2 the servicing of the storm-recovery Bonds. The SPE will also have at least one  
3 independent director or manager to oversee its operation, and they will receive a  
4 fee for their services and will be entitled to indemnification. Ongoing costs  
5 associated with the transaction do not include the federal and state tax liabilities  
6 associated with the collection of the Storm Bond Repayment Charge, which will  
7 be recovered by the Company through the collection of a separate charge (the  
8 Storm Bond Tax Charge) described in the testimonies of Mr. Davis and Dr.  
9 Morley.

10  
11 Certain of these ongoing costs, such as the administration fees and the amount of  
12 the servicing fee for FPL (as the initial servicer) may be determinable, either by  
13 reference to an established dollar amount or a percentage, on or before the  
14 issuance of any series of storm-recovery bonds. Other ongoing costs will vary  
15 over the term of the storm-recovery bonds.

16 **Q. How will the Company reconcile its actual ongoing costs associated with the**  
17 **transaction with its estimated costs?**

18 A. Because ongoing costs are recovered through the Storm Bond Repayment Charge,  
19 disparities will be resolved periodically through the true-up mechanism. The true-  
20 up mechanism is described in more detail in Mr. Davis' testimony.

21 **Q. Does this conclude your testimony?**

22 A. Yes.



## Primary Recommendation (\$ millions, except per kWh charges and typical bill impact)

Line No.	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12
1	<b>Storm-Recovery Bonds<sup>[1]</sup></b>											
2	1,050.00	999.90	936.24	866.63	791.55	711.33	626.24	536.00	440.35	339.11	232.10	119.10
3	50.10	63.66	69.61	75.07	80.22	85.09	90.24	95.65	101.24	107.02	113.00	119.10
4	999.90	936.24	866.63	791.55	711.33	626.24	536.00	440.35	339.11	232.10	119.10	-
5												
6												
7	<b>Storm Bond Repayment Charge</b>											
8	50.10	63.66	69.61	75.07	80.22	85.09	90.24	95.65	101.24	107.02	113.00	119.10
9	51.97	49.32	46.19	42.78	39.03	35.03	30.78	26.19	21.24	15.97	10.40	4.52
10	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
11	14.12	0.62	0.49	0.49	0.36	0.37	0.40	0.39	0.38	0.39	0.39	(18.21)
12	117.04	114.44	117.14	119.19	120.47	121.35	122.27	123.08	123.71	124.23	124.63	106.27
13												
14	<b>Storm Bond Tax Charge<sup>[4]</sup></b>											
15	30.87	39.38	43.12	46.55	49.78	52.84	56.07	59.47	62.98	66.61	70.36	74.20
16	<b>Total Customer Charge (Line 12 + Line 14)</b>											
17	147.91	153.82	160.26	165.74	170.25	174.19	178.34	182.55	186.68	190.84	195.00	180.46
18	<b>Cents Per Retail kWh<sup>[5]</sup></b>											
19	0.138	0.138	0.138	0.138	0.138	0.138	0.138	0.138	0.138	0.138	0.138	0.138
20	<b>Typical Bill Impact<sup>[6]</sup>:</b>											
21	\$1.58											
22	\$17.47											
23	\$1,051.20											
24												
25												
26	<b>Mean (Expected) Value of Reserve<sup>[7]</sup></b>											
27	601	548	489	422	351	266	183	92	(5)	(110)		
28												
29												
30												
31												
32												
33												
34												
35												
36												
37	<sup>[1]</sup> Based on \$1,050 million of Storm Recovery Bonds sold in 2, 5, 7 and 10 year tranches with an expected final maturity of 12 years											
38	and a weighted average interest rate of 5.06% per Olson Document No. Wo-2.											
39	<sup>[2]</sup> Ongoing costs of administering Special Purpose Entity and Storm Recovery Bonds as provided on Document MPD-3.											
40	<sup>[3]</sup> Assumes customer payment lag of 30 days. In year one, 12 months are billed, but only 11 months are collected.											
41	<sup>[4]</sup> Income taxes on revenues collected for principal payment net of deduction for amortization of up-front bond issuance costs at 38.575%.											
42	Interest on bonds is tax deductible but principal is not.											
43	<sup>[5]</sup> Total customer charge divided by forecasted retail sales adjusted for uncollectible accounts. Charge will change annually.											
44	based on the forecasted sales for that year and over or under collection from the previous year as described in Mr. Davis' testimony.											
45	<sup>[6]</sup> Per Morley Document No. RM-10.											
46	<sup>[7]</sup> Per Harris Document No. SPH-2											
47												

Docket No. 06XXXX-EI  
 M. Dewhurst, Exhibit No. \_\_\_\_\_  
 Document No. MPD-1, Page 1 of 1  
 Summary of Primary Recommendation

## Alternative Recommendation (\$ millions, except per kWh charges and typical bill impact)

Line No.	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<b>Current Surcharge for 2004 Unrecovered Costs</b>										
1	Beginning Balance <sup>[1]</sup>	(212.02)	(58.68)							
2	Current Surcharge <sup>[2]</sup>	156.80	59.43							
3	Accrued Interest <sup>[3]</sup>	(3.46)	(0.75)							
4	Ending Balance	<u>(58.68)</u>	<u>0.00</u>							
5										
6	Cents per Retail kWh	0.146	0.146							
7										
<b>Surcharge for 2005 Estimated Storm Costs</b>										
9	Beginning Balance <sup>[4]</sup>	(828.14)	(570.39)	(294.83)						
10	Surcharge collections <sup>[5]</sup>	275.60	286.61	298.59						
11	Accrued Interest <sup>[3]</sup>	(17.85)	(11.04)	(3.76)						
12	Ending Balance	<u>(570.39)</u>	<u>(294.83)</u>	<u>(0.00)</u>						
13										
14	Cents per Retail kWh <sup>[6]</sup>	0.256	0.256	0.256						
15										
<b>Surcharge to Replenish Reserve</b>										
17	Surcharge collections <sup>[7]</sup>	208.11	216.42	225.47						
18										
19	Surcharge per Retail kWh <sup>[6]</sup>	0.194	0.194	0.194						
20										
21	Total Surcharge Collected (Line 2 + Line 10 + Line 17) <sup>[10]</sup>	<u>640.50</u>	<u>562.46</u>	<u>524.07</u>						
22										
23	Cents per Retail kWh <sup>[6]</sup>	<u>0.596</u>	<u>0.596</u>	<u>0.450</u>						
24										
<b>Typical Bill Impact<sup>[8]</sup>:</b>										
26	Residential, per 1,000 kWh	\$6.84	\$6.84	\$5.19						
27	Commercial	\$78.46	\$78.46	\$56.95						
28	Industrial	\$4,029.60	\$4,029.60	\$3,328.80						
29										
30	<b>Mean (Expected) Value of Reserve <sup>[9]</sup></b>	<u>138</u>	<u>282</u>	<u>439</u>	<u>372</u>	<u>301</u>	<u>224</u>	<u>141</u>	<u>50</u>	<u>(50)</u>
31										
32										

- [1] Projected balance for current surcharge as of 7/31/06. Assumes current surcharge remains in place.
- [2] Per Davis Document No. KMD-1.
- [3] Accrued Interest on the after-tax value of the deficit at the Company's commercial paper rate.
- [4] Net adjustment of 2004 costs per Davis Document No. KMD-3 of \$1.3 million plus unrecovered 2005 storm-recovery costs of \$826.9 million per Davis Document No. KMD-2.
- [5] Surcharge calculated to recover balance on a levelized basis over three years.
- [6] Annual surcharge divided by projected billed retail sales.
- [7] Surcharge calculated to collect \$650 replenishment of the Reserve on a levelized basis over three years.
- [8] Per Morley Document RM-10.
- [9] Per Harris Document No. SPH-2.
- [10] Totals may not add due to rounding.

## Estimated Up-front Storm Recovery Bond Issuance Costs

Principal amount of Storm Recovery Bonds:	1,050,000,000
Underwriting fees (.50% of Principal)	\$5,250,000
Rating Agency Fees	950,000
FPL Financial Advisor's Fee	600,000
Commission Financial Advisor's Fee	1,000,000
Printing	37,500
Trustee Fees	25,000
Legal Fees	2,000,000
SEC Fees	112,350
Auditing Fees	75,000
SPV Set-up Fee	15,000
Servicer Set-up Fee	350,000
Original Issue Discount	500,000
Marketing and Miscellaneous	500,000
Total	<u>\$11,414,850</u>

## Estimate of On-Going Costs

Trustee Fees	\$15,000
Administration Fee	125,000
Independent Manager Fee	5,000
Accounting Fees	60,000
Rating Agency Fees	20,000
Servicing Fee	525,000
Legal Fees	50,000
Miscellaneous Fees	50,000
Total	<u>\$850,000</u>