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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Direct Testimony of Joseph S. Fichera

Appearing on Behalf of Staff

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DIRECT TESTIMONY OF JOSEPH S. FICHERA

Q. Please state your name and business address.

A. Joseph S. Fichera, Saber Partners, LLC, 44 Wall Street, New York, New York.

Professional Qualifications, Education, and Experience

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

A. I am a member of Saber Partners, LLC and serve as its Chief Executive Officer. I am also the President and Manager of the firm's broker-dealer subsidiary, Saber Capital Partners, LLC (together with Saber Partners, LLC, "Saber").

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

A. I manage the organization and execute assignments for clients by providing confidential, independent, senior level analysis, advice, and execution for chief executive officers, regulators, elected officials, chief financial officers, treasurers and others.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor's degree in Public Affairs from Princeton University's Woodrow Wilson School of Public and International Affairs. I also have a Master's degree in Business Administration from Yale University's School of Management. In 1995-1996, I was an executive fellow in residence at the Woodrow Wilson School of Public and International Affairs at Princeton.

I have worked in the fields of finance and investment banking since 1982. I began as an Associate in the Public Finance Department of Dean Witter Reynolds (now a part of Morgan Stanley) from 1982-1984. I then served as Vice President in Corporate Finance at Smith Barney Harris Upham (now a part of Citigroup) from 1984-1989. I became a Managing Director, Principal in Corporate Finance and Capital Markets at Bear Stearns and Co, Inc. from 1989-1995. Following my fellowship at Princeton in 1996, I served as Managing

Director and Group Head of Prudential Securities Business Origination and Product Development Unit from 1997-2000. With several colleagues from the utility, law, and banking industries, I formed Saber Partners, LLC in 2000. Saber Capital Partners was formed in 2003 and is registered with the National Association of Securities Dealers to participate in mergers and acquisitions and investment banking services. We do not underwrite or trade securities. I hold a general securities principal license (Series 24) from the U.S. Securities and Exchange Commission ("SEC") as well as a general securities representative license (Series 7 and 63).

Since forming Saber, I have been engaged in a number of complex assignments in the energy and finance field. I served as a chief financial advisor, along with the Blackstone Group, to the governor of the State of California during 2001 in response to the state's energy crisis. I also have served as the chief financial advisor to five state utility commissions or their agents (Texas, Wisconsin, West Virginia, Vermont, and New Jersey) on the use of securitization and specifically on the structuring, marketing, and pricing of approximately $5 billion in bonds. I have also been engaged as an advisor to the SEC and ExxonMobil Corporation, among others.

I currently serve on the Board of Advisors of Princeton's Center for Economic Policy Studies. I am also Chairman of the Princeton Economics Department Advisor Council. In that capacity, I served as an advisor to Federal Reserve Chairman Ben Bernanke when he was the Chairman of the Economics Department of Princeton University in the 1990s.

Q. During your career on Wall Street, have you participated in any underwritings?

A. Yes. The primary focus of my positions from Associate to Managing Director was first to execute underwritings and private placements of debt and equity issuances. My role then

evolved to providing strategic advice to corporate treasurers, chief financial officers and chief executive officers in addition to working on financing teams.

My responsibilities included all negotiations with these officers and counsel on the structuring, marketing, and pricing of security offerings. I also led or participated in corporate reorganizations and restructurings. My underwriting experience included direct negotiations with corporations, utilities, and investors concerning the structuring, marketing and pricing of debt and equity securities. My primary role was as the bookrunning underwriter, sole manager or senior manager. I also have experience as a co-managing underwriter of debt and equity securities.

As an underwriter and advisor, I received three "Deal of the Year" awards from industry publications. These are awards for transactions that independent observers who follow the profession closely consider to be important or worthy of being brought to the attention of one's peers. In 1990, I received the award from "Institutional Investor" magazine for a preferred stock transaction. In 1991, I received this award again for an investor-owned utility debt reorganization in the tax-exempt bond market. In 2003, I was recognized with a similar "Deal of the Year" award from "Asset Securitization Report" for a utility securitization offering.

Q. Have you participated in transactions involving the use of securitization by utilities?

A. Yes. To date I have participated in six utility securitization offerings, and I am involved in five pending transactions, including the securitization transactions proposed by Florida Power & Light Company ("FPL") and Gulf Power Company (Gulf) in Florida.

Q. Please describe your role in these transactions and the nature of your work.

A. Saber has been engaged as the financial advisor to five state utility commissions or their agents (Texas, Wisconsin, West Virginia, Vermont, and New Jersey). These assignments

involve the use of securitization and specifically the structuring, marketing, and pricing of approximately $5 billion in bonds. As CEO of Saber I oversee those assignments. My most extensive securitization experience has been as financial advisor to the Public Utility Commission of Texas ("PUCT") in five separate offerings from 2001 to 2005.

In many ways, the Florida Commission finds itself in a position similar to the PUCT in 2000 when it issued its first securitization orders. At that time, billions of dollars of utility securitization bonds had already been issued across the country, but Texas was about to undertake its first transaction. Underwriters advised that the market was well established with known "generic" rates. Nevertheless, the PUCT deliberated extensively on the matter and developed a framework for implementing a securitization program for Texas that would protect ratepayer interests while respecting the right of the utility to receive bond proceeds.

The PUCT adopted a framework requiring Commission involvement and approval of all aspects of the financing, from the structuring through the pricing of the securities. The Texas Commission also adopted a system of independent and fully accountable certifications which it could use to evaluate whether ratepayer benefits had been maximized and whether ratepayer risks had been minimized.

My duties have generally included the items summarized in EXH JSF-1, Duties of the Financial Advisor, and were included in the financing orders of the Public Utility Commission of Texas, the first of which was issued to Central Power & Light Company. My duties were similar, though not identical, in securitization assignments for New Jersey and in the pending assignments for Wisconsin and West Virginia.

Q. Please briefly describe the process used by the Commission to select a financial advisor for this case?

A. The Staff of the Florida Public Service Commission conducted a competitive bidding process for financial advisory services in connection with utility securitization proposals that it anticipated pursuant to the new law in Florida authorizing the use of securitization to recover storm-recovery costs.[1] Saber submitted a proposal in response to the Commission Staff's request for bids and was unanimously selected.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring the seven Exhibits that are attached to my testimony.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the securitization process and how it can be used in Florida to mitigate the rate impact of storm damage costs in a way that maximizes ratepayer benefits and minimizes ratepayer costs. We look to balance the interests of Gulf with the needs of the ratepayers and to develop a framework within which Gulf and its advisors, as well as the Commission and its staff and advisors, can work together in a cooperative, collaborative and collegial manner toward a common goal.

It must be noted, from the very beginning, that neither Gulf nor its shareholders are responsible for any portion of the costs and charges associated with storm-recovery bonds that would be issued if the Commission approves securitization of any storm-recovery costs. This is unlike any other security offered by or through Gulf. Traditionally, Gulf would bear the costs and charges, but here the costs and charges are borne solely by ratepayers. Yet, despite the good will of Gulf and its shareholders, ratepayers are simply not represented in a meaningful way in this matter that directly affects them. Consequently, the critical need in this transaction is for the perspective of ratepayers to be reflected throughout the process in

[1] Section 366.8260, Florida Statutes.

order to work with the company to protect ratepayer interests, maximize ratepayer benefits and minimize ratepayer risks.

From a survey of other jurisdictions, I will detail for the Commission a set of "best practices" for efficiently completing a new utility securitization program at the lowest possible cost to ratepayers while fully protecting ratepayer interests in the transaction and the rights of the utilities to receive the proceeds. I will describe how these "best practices" have evolved over a number of years in securitization transactions in other states. I will also identify the possible ratepayer economic benefits and increased regulatory protections that have come from adoption of a "best practices" standard. Finally, I will use these standards to evaluate Gulf's petition and identify terms and conditions that the Commission should include in a financing order so that ratepayers are protected from unnecessary risks and costs associated with the issuance of any storm-recovery bonds.

I believe the evidence will show that by following these recommendations, the proposed securitization program will comply with the governing statute, protect ratepayer interests, and be consistent with good regulatory practices in Florida and other states. With the cooperation and collaboration of Gulf, these recommendations will help maximize ratepayer benefits and minimize ratepayer risks and costs while respecting the rights of the utility to the bond proceeds.

Q. How did you determine what could be considered best practices?

A. I examined the financing orders for all utility securitization transactions from 1997 to present. I looked at the interest rate and pricing results by comparing each transaction's set of interest rates, by maturity, to a relevant benchmark security interest rate. This revealed a set of "credit

spreads" for each transaction.[2] A "credit spread" is the difference between two interest rates of similar weighted average lives, one of which usually is from a "benchmark" security such as a U.S. treasury note rate.

In all, 36 transactions were reviewed to find the "lowest cost" transactions based on the credit spread achieved for identically rated bond offerings with similar weighted average lives. In addition, I looked for terms and conditions in the financing order, examined practices in the structuring, marketing, and pricing of the securities, and performed a general review of the terms and conditions of ancillary agreements such as servicing agreements, administration agreements, amendment provisions and other matters that affect ratepayer costs or liabilities. Based on this review and my professional experience, I identified a set of "best practices" that are listed and explained in more detail later in my testimony.

Overview of Securitization

Q. What is securitization?

A. Securitization is the process of issuing highly-rated securities through special purpose, bankruptcy-remote entities. Typically, property with a dependable cash flow is transferred by the sponsor (in this case, Gulf) to a special purpose entity ("SPE") through a "true sale." For purposes of achieving the necessary legal protections under federal bankruptcy law, a true sale is achieved through an absolute transfer of the sponsor's entire right, title and interest in the property to the SPE, a legally distinct party, for fair market value, with sponsor retaining no residual ownership interest in the property. The SPE issues bonds and pledges the transferred property to secure the payment of debt service on the bonds that the SPE issues. The transferred property can either be tangible or intangible. For example, the transferred property

[2] My review was focused on all offered transactions since 2000 because the convention for quoting credit spreads in the market for utility securitizations changed from being based off of United States Treasury securities to Interest Rate Swaps.

might be a physical asset (e.g., a plant), an intellectual asset (e.g., a patent), or an intangible asset (e.g., the right to a particular revenue stream.)

Securitization creates a separate and independent credit based on the risk associated with the cash flows from the pledged property that supports the payment of principal and interest to investors. As a result, securitized debt instruments do not burden the assets or revenues of the sponsoring utility and instead are payable solely from the pledged property. This means ratepayers are solely responsible for payment.

Q. Please discuss how securitization has been used by electric utilities in other states.

A. State legislatures, public utility commissions and investor-owned utilities have used securitization to raise funds for several different purposes deemed to be in the public interest. To date, securitization has been used or is pending to fund energy conservation programs, environmental control facilities, electric power purchase costs, and stranded costs arising from deregulation. (See EXH JSF-2)

A defining and common feature of these securitization transactions is that they all have been made possible by specific enabling state legislation that establishes a legal framework for the creation of a new type of intangible property right under state law. This new intangible property will, in general, initially be owned by the utility. Like any other property owned by the utility, this new property can be pledged as collateral in a financing. In this case, the property created is the right to bill, charge, and collect a specific charge on some or all retail electricity consumers in a given electricity transmission and distribution service territory.

The enabling legislation also allows utility commissions to issue irrevocable financing orders that: (a) segregate a component of the retail rate charged to consumers throughout the territory; (b) cause the right to receive this rate component to be treated as a present interest in property that can be bought, sold, and pledged; (c) authorize the utility to sell this property to a

bankruptcy-remote, SPE; (d) authorize the SPE to issue debt instruments secured by a first priority lien on this property; and (e) require the utility to use net proceeds from the transaction for specified purposes.

There have been 36 issues of securitized utility bonds since 1994 totaling $36.55 billion dollars. In none of these transactions has the utility or its shareholders been responsible for any portion of the costs or charges associated with securitized bonds. Consequently, the financing is unlike any of the utility's other obligations. The economic burden of repaying these securitized bonds falls squarely on the ratepayers in the service territory; hence they are aptly referred to as "ratepayer-backed" bonds.

Initially, ratepayer-backed bonds were issued primarily for the recovery of stranded costs in states that had de-regulated their electricity markets. In 2004-2005, ratepayer-backed bonds began to be used for purposes other than the recovery of stranded costs. Certain state governments and their regulators authorized its use for refinancing of a bankruptcy-related regulatory asset (California), unrecovered electric power purchase costs (New Jersey), environmental facilities (Wisconsin and West Virginia), buy-downs from contracts with independent power producers (Vermont), storm cost recovery (Florida), and any corporate purpose (Idaho).

Expected Benefits and Protections for Ratepayers

Q. What are the expected economic benefits associated with using securitization in Florida to finance storm-recovery costs?

A. There are two basic sources of economic benefits (savings):

First, significant savings occur when ratepayer-backed bonds are used to replace conventional utility debt and equity financing. It is effectively off-balance-sheet and non-recourse to the utility. The utility is fully protected. This means that the utility can finance

the asset or expense in question with nearly 100% debt rather than its normal capital mix of about 50% debt and 50% equity without any impairment of its credit structure.

There are two reasons why financing in this way saves money. First, the cost of equity is much higher than the cost of debt. A 5% cost of debt and an 11% cost of equity are typical values in today's environment. In addition, savings occur by the avoidance of income taxes that would otherwise have to be paid on the equity return. These savings accrue directly to the ratepayers in the form of lower overall rates than would otherwise be levied.

The second source of savings comes from pricing these ratepayer-backed bonds in the capital markets commensurate with their extremely high credit quality. In general, the better the credit rating, the lower the interest cost. By separating the operating utility from the issuer of the bonds (a so called "bankruptcy–remote" entity) and isolating the cash flow, the credit associated with ratepayer-backed bonds will be evaluated by investors as independent of the sponsoring utility and independent of the traditional debt of the utility. Conventional utility debt has numerous risks associated with its repayment. Those risks will not be present in connection with ratepayer-backed bonds.

In addition, the enabling legislation in Florida and any financing order for storm-recovery bonds will create a credit that should allow the bonds to get the highest possible credit rating available in the market. Furthermore, and most importantly, because the broad-based storm-recovery charge will be imposed on substantially all retail electric consumers in Gulf's service area, and because the storm-recovery charge will be automatically adjusted periodically to whatever level is necessary to repay the storm-recovery bonds on time over the life of the bonds, as required by Florida's enabling statute and a Commission order, like all other ratepayer-backed bonds, storm-recovery bonds will be rated "AAA". This is the top category in the credit rating system.

Q. Are the pricing savings from ratepayer-backed bonds automatic?

A. No. The savings commensurate with this top-quality credit are not automatic. Not all "AAA" rated bonds price or trade at the same yield. There are a number of steps, which are discussed later in my testimony, that are required at the time ratepayer-backed bonds are structured, marketed, and priced to achieve the lowest cost available consistent with market conditions at the time of pricing and the terms of the financing order, and to capture the full economic value of the unique government guarantees embodied in the legislation and the irrevocable nature of the financing order. (See EXH JSF-3)

Also, in using the best practices I identify, the Florida Public Service Commission ("FPSC") and Gulf can work to maximize ratepayer benefits and to improve ratepayer protections.

Q. Is "lowest cost" an appropriate standard?

A. Yes. The proceeds of a bond issuance are cash dollars. Issuers want to raise the maximum amount of dollars at the lowest possible cost. Underwriters have a vested interest in urging the use of a standard of "reasonable cost" because "reasonable" covers a range of outcomes. For any long-term financing, that range might represent millions or tens of millions of dollars in extra costs. One might choose to use a reasonable cost standard to reimburse a doctor, where there are differences in both the type and quality of care. However, one dollar has the same quality as another dollar, and a bond issuer only wants the most dollars for the lowest cost. There is no reason to pay any more for a bond issue than is necessary. With a lowest cost standard, the emphasis is on eliminating waste and inefficiency which otherwise might occur under a "reasonable cost" standard.

Q. Has a "lowest cost" standard been applied elsewhere?

A. Yes. Throughout my almost 25 years in corporate finance, every treasurer, chief financial officer or other finance official I have dealt with or observed always strove for the lowest cost financing when pursuing a debt offering in which they or their shareholders were responsible. This is simply an axiom of sound financial management. A prudent person never wants to pay more than absolutely necessary for capital. If the prudent person is responsible for repaying the debt, that person will want the lowest cost transaction possible.

In authorizing ratepayer-backed bonds, some states have placed a lowest cost standard in the enabling legislation, while others pursue it as a matter of policy. The states of Wisconsin, Texas and New Jersey have it in their statutes. In West Virginia, though it was not in the statute, the sponsoring utility, consumer representatives, Commission staff, and other interveners all agreed in a joint stipulation on the utility's application that the "lowest cost" standard would be applied to the financing. I expect the West Virginia Public Service Commission will adopt a financing order some time during the week of April 1, 2006, approving the issuance of ratepayer-backed bonds to finance SO^2 abatement facilities for Allegheny Power and adopting this "lowest cost" standard.

Q. Have ratepayer-backed bonds been issued under a clearly identifiable lowest cost standard?

A. Yes. In Texas and New Jersey, Saber has overseen the issuance of approximately $5 billion of bonds in six transactions with a "lowest cost" standard. Wisconsin and West Virginia have transactions pending with such a standard.

Q. Are underwriters and investors cooperative in achieving the lowest cost?

A. It varies. Some are excellent, and others are not. Some are more cooperative than others. Fundamentally, underwriters have an inherent conflict of interest in determining the cost of the bonds for issuers. Underwriters are the initial purchasers of the bonds. They generally

purchase the bonds from the issuer at an agreed discount and then resell the bonds to investors at face value. The higher the interest rate, the easier it is to resell the bonds at face value. Therefore, it is in the underwriters' economic interest to get a higher interest rate to make it easier to induce their customers, the investors, to buy the bonds. Investors also want as high an interest rate as possible. But most underwriters also wish to respect issuers' interests. Many are well-intentioned and try to balance these conflicting interests in the best possible way, though their legal relationship is commercial, and no fiduciary relationship exists.

Nevertheless, the parties who represent the interests of the real obligors (in this case the ratepayers) would be involved in the structuring, marketing and pricing process that pits them against the interests of the underwriters and the investors. It is therefore the responsibility of the real obligors' representatives to create a competitive process among underwriters and investors so as to achieve the greatest leverage in negotiations and therefore the lowest possible cost.

Some underwriters and some investors attempt to use their size and market power to induce higher interest rates on bonds they purchase and re-sell. All underwriting firms are profit maximizers. Some underwriters will be more competitive on a specific bond issue when they anticipate economic gain flowing from future transactions or from related business if they perform successfully. Others might seek solely to maximize their income from the transaction. Still other underwriters might have lower compensation hurdles and might be willing to be more aggressive in distribution and pricing.

These are elements of a market-based negotiation and sale of bonds. It is important for any issuer of bonds to have experience with market participants and with negotiating hard to achieve the best deal possible and not defer decisions to those whose interests are fundamentally adverse to the interests of ratepayers. Nothing is automatic except the self-

interest of the parties in the negotiation. For example, Barclays Capital Inc. (Barclays), Gulf's current advisor, demonstrated a willingness to work under a "lowest cost" standard and be judged by the Texas Commission for purposes of establishing its compensation.

Later in my testimony, I will describe the best practices in the ratepayer-backed bond structuring, marketing and pricing process that will have the greatest chance to achieve the lowest possible cost to ratepayers.

Q. Does a lowest cost standard create more cost for ratepayers than a lesser standard?

A. Pursuing a lowest cost standard might require transaction participants to work harder, but not necessarily at higher economic cost. Gulf proposes almost $2.6 million in issuance expenses. It is appropriate to expect the best possible outcome for such costs. Otherwise waste and inefficiency might arise from the process. Indeed, not pursuing the lowest cost almost guarantees higher total cost because there is no incentive or accountability to get anything better. Among the transaction costs, the greatest economic cost to ratepayers is the interest rate on the bonds. This is larger than any single up-front transaction cost. "Reasonable" is not an appropriate standard to apply, especially when the potential cost is so substantial. Moreover, without involvement in real time throughout the transaction, there will be no way for the Commission to know that the transaction was priced at the lowest interest rate possible at the time of pricing.

This is one reason why care needs to be taken, in cooperation with Gulf, in selecting experienced transaction participants and others. It is essential to put together a team which shares a similar objective and commitment to excellence, which can provide economies of scale and which is responsive to competitive pressures and economic incentives. If the economic incentives are properly aligned with proper oversight, underwriters, counsel, advisors and others will work in the most cost-effective, collaborative manner with the

Commission and the utility to achieve the lowest cost objective. If there are no incentives or no accountabilities in the process, waste and inefficiencies are likely to occur. The standard of "lowest cost" with accountability compels the transaction parties to achieve the best transaction possible and to avoid a poorly executed, badly priced transaction.

Some may argue that an active Commission increases utility legal costs, and that this is a reason not to have active Commission involvement in protecting ratepayer interests after a financing order has been issued. A review of past legal costs associated with all publicly-offered ratepayer-backed bonds with or without an active commission, staff, or an advisor shows no discernible pattern.

Finally, some expenditures can provide savings as well as protections against adverse consequences. For example, is hiring an independent auditor cost effective? Does having a public utility commission increase electricity rates?

Q. How have other state commissions ensured that the financing costs associated with ratepayer-backed bonds, including the interest rates and all other costs associated with the issuance of the bonds, resulted in the lowest cost to the ratepayers?

A. Other state commissions with financial advisors have instructed those financial advisors as well as commission staff to participate actively and in advance in all aspects of the structuring, marketing, and pricing of ratepayer-backed bonds to ensure a lowest cost transaction. This creates the proper balance in negotiations and discussions by having a representative of the ratepayers, with a fiduciary duty to ratepayers, directly involved in all matters that affect them. This participation has included involvement in the earliest drafts of transaction documents and initial contacts with rating agencies as well as investor presentations and the actual negotiations with underwriters at the moment of pricing of the ratepayer-backed bonds. Fundamentally, Gulf's application asks for approval of costs based on estimates with no

procedure for determining whether the most important costs, the interest costs, are the lowest possible for the benefit of ratepayers.

Q. How do you define active participation of the Commission?

A. The Commission would remain the final decision maker on all disputed matters but would not be personally involved on a day-to-day basis with implementing the financing order's terms and conditions. That role would be the responsibility of staff as assisted by any outside advisors the Commission chooses to employ (such as the financial advisor). To the extent that matters of policy or questions concerning the interpretation of the Commission's orders and directives are needed, the Commissioners would be consulted and advised by staff and their advisors.

Q. Does Gulf's petition have a financing standard or objective?

A. No. It is silent on the subject of the bonds' cost to ratepayers as well as the subject of negotiation with underwriters and investors.

Q. Does Section 366.8260, Florida Statutes, authorize the FPSC to include provisions in a financing order that are designed to ensure the lowest cost of funds and other ratepayer protections?

A. Yes. Section 366.8260(2)2.j, Florida Statutes, specifically directs the FPSC to "[i]nclude any other conditions that the commission considers appropriate and that are not otherwise inconsistent with this section." This authorizes the FPSC to impose conditions that are designed to achieve the greatest ratepayer protections possible and ensure the lowest possible storm-recovery charges.

Q. What are the necessary features to make utility securitization possible?

A. The necessary features generally include an enabling statute for the commission to issue an irrevocable financing order approving a ratepayer-backed bond transaction, a state pledge

never to interfere with the bondholders' rights to collect payment, and regulatory approval of an irrevocable financing order imposing a non-bypassable charge on ratepayers with a periodic adjustment mechanism (often called a "true-up mechanism") that will adjust the charge automatically, as necessary, to ensure timely payment of the bonds.

Q. Please explain the true-up mechanism and state pledge.

A. In utility securitizations, enabling state legislation includes a specific pledge that the state will not modify or impair the special property right so long as securitized ratepayer-backed bonds authorized by a commission's financing order remain outstanding. In addition, financing orders include a periodic true-up process that guarantees the Commission will adjust the segregated rate component pursuant to a pre-approved formula at least annually to whatever level is necessary to pay principal and interest on the securitized ratepayer-backed bonds on time.

Thus, repayment of the bonds is fully guaranteed by the state's pledge and its regulatory authority to implement the true-up mechanism, not the state's taxing authority or full faith and credit. This is a unique form of government guarantee.

Q. Why are the true-up mechanism and state pledge necessary for a utility securitization?

A. These features are necessary to raise the funds in the most efficient, least costly manner. With these and other structural features in place, a top quality AAA rating can be achieved and investors can be persuaded to accept a low interest rate. Without such a rating, all of the potential economic benefits of securitization might not be obtained. But that is only one component of the process of obtaining these benefits.

Q. Please explain the role of the "bankruptcy-remote" SPE in the transaction.

A. Like the state pledge and true-up mechanism, the SPE structure is necessary to separate the ratepayer-backed bond's credit from the utility's credit and makes the AAA rating achievable.

The special property right is granted to a utility by the enabling statute. It is sold by the utility to its bankruptcy-remote SPE. The SPE is nominally owned by the utility for the convenience of the transaction and for tax reasons, but should be responsible to the Commission. The SPE has only minimal equity capital (typically 0.5% of the SPE's total assets), but its other activities are restricted by its formation documents and the Commission in accordance with requirements of the financing order so that it is unlikely to become insolvent by reason of unrelated activities.

The SPE purchases the property from the utility and raises the amount needed to fund the purchase price by issuing ratepayer-backed bonds. At or about the time bonds are sold, the parties have to agree to the fair market-value price the SPE will pay the utility for the property. The fair market-value price will depend upon the yield inherent in the property (which is based upon the yield on the bonds) and the strength of covenants, representations and warrantees given by the utility to the SPE. Like the market value yield, these covenants, representations and warrantees should be actively negotiated, with the final terms not settled until immediately before the marketing period begins. Ratepayers, therefore, have an interest in these items.

Q. Please describe the specific duties involved in Gulf's role as servicer to the SPE?

A. The servicer calculates, bills and collects the storm-recovery charges associated with the storm-recovery bonds on behalf of the SPE and remits them to the bondholders' trustee. It also performs duties related to implementing the true-up mechanism so as to ensure that collections are sufficient to ensure timely payment of principal and interest on the bonds.

Q. Will Gulf be compensated for providing these services?

A. Yes. Under the Servicing Agreement proposed by Gulf, Gulf would be paid 0.15% of the initial principal amount of the bonds by the SPE each year for performing these services,

regardless of Gulf's incremental cost to provide these services. This type of arrangement is not unusual because bankruptcy law considerations require the relationship between Gulf and the SPE to be "arms-length" for purposes of the transaction. However, absent some adjustment, this arrangement will potentially require Gulf's ratepayers to pay more through storm-recovery charges than Gulf's incremental cost of providing the services.

Q. Is this amount of fee appropriate?

A. The percentage is within the range of fees charged in other transactions, but Gulf has not presented any evidence of its actual costs of servicing to evaluate whether this level of fee is appropriate or whether a lower fee would be appropriate and consistent with bankruptcy law related concerns. For example, as noted in Gulf Witness Jay Kim's exhibit, Public Service Electric & Gas did a $102 million transaction for a servicing fee of 0.05% per annum, as did Western Massachusetts in 2001 for a $155 million transaction. There are higher fees as well. Size of the transaction is not necessarily the sole determining factor.

Q. In your experience with ratepayer-backed bonds issued in other states, have commissions linked servicer fees to the incremental cost incurred by the utility to perform the servicer duties?

A. Yes. In ratepayer-backed bond transactions in West Virginia, California, Montana, Connecticut and New Jersey, the financing orders explicitly approved a fixed fee in accordance with rating agency and bankruptcy law concerns but directed that the utility's other rates were to be adjusted so as to prevent recovery by the utility in excess of its verifiable incremental costs.[3] This prevents net over-recovery by the utility and ratepayers being charged more than once for the same costs.

[3] *See* ftn. .11.

Q. How often should Gulf in its role as servicer be required to prepare, file, and process the true-up mechanism required by Section 366.8260, F.S., and the Financing Order?

A. Gulf proposes to make true-up filings twice a year or more frequently if necessary to maintain its bond ratings. True-ups every six months will make for more accurate collections and will increase the likelihood that the storm-recovery bonds will be paid on schedule. That likelihood is also perceived by investors as adding value. Investors will likely take comfort from knowing that the timeliness and adequacy of storm-recovery charge collections will be excellent, and those factors could provide added value when investors are pricing these securities, to the benefit of ratepayers.

Q. Why is this important from the ratepayers' perspective?

A. To the extent that investors perceive that the repayment schedule might be missed through either a default or simply an extension (deferral) of a principal payment, they will likely want to be compensated with increased yield for bearing that risk. To the extent that the risk or the perceived risk can be reduced, storm-recovery bonds will become more attractive to more investors at a lower cost to ratepayers.

Q. How often should Gulf in its role as servicer be required to remit to the SPE the storm-recovery charges it collects from ratepayers?

A. The shortest possible time should be required. Daily is preferable.

Q. Why is this important from the ratepayers' perspective?

A. First, until the money is turned over to the trustee, it is commingled with Gulf's other funds. Investors are concerned that if anything should happen to Gulf, the money might get tied up in a court proceeding and eventually delay payment to them. Second, while collected and not remitted to the trustee, the money would be earning interest. Unless it is made clear that this interest income is the property of the SPE and therefore used to pay principal and interest and

expenses in order to reduce future storm-recovery charges, Gulf will keep this additional income at the expense of ratepayers. I recognize that because this is a relatively small transaction the amount of money involved is not large. Nevertheless, the principle and practice discussed above should be used in this transaction and in future transactions.

Q. In your experience with ratepayer-backed bonds issued in other states, have commissions required the utility, acting as the servicer for the transaction, to indemnify its ratepayers against an increase in the servicer fee in the event of default due to negligence, misconduct, or termination for cause?

A. Yes. This has been required in states where commissions have relied on an active financial advisor to represent ratepayer interests. In the five prior Texas ratepayer-backed bond transactions, ratepayers received indemnification from the servicer for such events. The West Virginia financing order released on April 7, 2006 also follows this precedent.

Q. Why is this important from the ratepayers' perspective?

A. The servicer is a critical participant in the transaction throughout the life of the ratepayer-backed bonds. Negligence or other malfeasance can result in losses because the cost of retaining a third party servicer to replace Gulf is estimated to be many times higher than the cost of Gulf continuing to be the servicer. Investors generally will be protected against these losses through operation of the true-up mechanism which places all costs on the ratepayer. Ratepayers will be protected only if they can rely on the servicer and if they are entitled to indemnification from the servicer if any loss results from the servicer's negligence or malfeasance.

Q. What is the administration fee?

A. This is the amount charged by Gulf to the SPE (and passed along by the SPE to the ratepayers) for maintaining the books and records of the SPE and performing certain functions of the SPE.

Q. Is the fee proposed by Gulf appropriate?

A. Like the servicing fee, most commissions looked to the actual costs of the utility in performing the functions to determine the fee. Gulf has not submitted any detail as to their actual costs.

Q. Should Gulf be permitted to retain any amount of administration fees in excess of its verifiable incremental costs incurred to perform the administrative duties?

A. No. Conceptually, the administration fee is the same as the servicing fee. In each case, Gulf should only be permitted to retain its verifiable incremental costs.

Q. What makes a successful ratepayer-backed bond transaction?

A. A successful ratepayer-backed bond transaction produces the greatest economic value from the property—i.e., raises funds at the lowest possible cost and least liability to ratepayers as represented by covenants, representations, and warrantees of the utility to the SPE and for the benefit of ratepayers. If the measure of success were to simply sell ratepayer-backed bonds and raise cash, regardless of the security's cost, a "successful" transaction would need very little attention. There are many investors that would be happy to own a high quality investment product with a high interest rate. (Indeed, many large investors have made it known that this is exactly what they want and some underwriters are more than happy to oblige.) However, raising funds at the lowest possible cost and least liability to ratepayers requires more attention to structuring, more effort within the capital markets, and more due diligence on the part of regulators and the utility.

Q. Are all the elements for a successful securitization present in this petition?

A. No. There are both substantive and procedural deficiencies in the Gulf petition which will be addressed later in this testimony. These should be addressed early so that the Commission and Gulf can work in a cooperative manner to complete the transaction expeditiously.

Comparison to Other Securities

Q. Is a comparison to other securities important to ratepayers?

A. Yes. To determine whether ratepayers have received all the benefits from securitization, the legislation and the financing order, and to have a benchmark for success, it is important to compare storm-recovery bonds to other securities in the market. All securities price in relation to other securities, their terms, conditions, representations, warrantees and other factors making up their credit and their market. Only by knowing and examining these and other factors can one determine whether a ratepayer-backed bond transaction has been successful or not.

Q. How do ratepayer-backed bonds compare with corporate bonds?

A. Ratepayer-backed bonds are a corporate security with a unique form of government guarantee. The guarantee is not based upon the government's taxing authority but rather on the exercise of the government's regulatory authority over rates charged for the consumption of electricity and the transmission and distribution of electricity.

Ratepayer-backed bonds are arguably superior to all other corporate securities, secured or unsecured, because of the quality of the credit supporting the bond issue. First, by using an SPE, the property supporting the bonds is isolated from the claims of the creditors and the liabilities of the utility or government. There are no other operating, capital, or interest expenses that can have a claim on the cash flow from the property. Second, the charge is on an essential commodity, electricity, which is vital to almost everything we do. Third, the charge is applied broadly to all customers and cannot be avoided however electricity is supplied or consumed. Finally, the government has made a pledge, not only not to interfere in the transaction in any way, but also to guarantee that the government will use its regulatory authority to support the bonds. This creates a direct, explicit, unconditional and irrevocable

obligation in the financing order to adjust the level of the broad-based charge regularly to whatever level is necessary to guarantee the timely repayment of the bonds.

These features result in an incredibly strong credit independent of the utility. In fact, in every instance where ratepayer-backed bonds have been issued in the utility industry, they have been rated AAA, and not one has ever been downgraded from AAA. A large part of the Commission's financial advisor's job is to work collaboratively with Gulf and the underwriters to ensure that more and more potential investors understand this high-quality security so that storm-recovery bonds can be sold at the highest price to investors and thus at the lowest cost to ratepayers.

Q. With respect to credit fundamentals, how do ratepayer-backed bonds compare to corporate bonds?

A. The certainty over the cash flow to repay ratepayer-backed bonds is unmatched in any corporate bond, including utility first mortgage bonds. The credit fundamentals of ratepayer-backed bonds are superior in that they are senior obligations. They are fully secured and do not compete with any operating expenses of the utility.

The certainty over the cash flow comes not only from the isolation of and the broad-based nature of the charge, but also from the true-up adjustment mechanism. This adjustment mechanism is a form of credit enhancement unique to ratepayer-backed bonds. It is mandated by the enabling legislation and implemented by the Commission. It requires all of the utility's customers to make up any shortfall in collections for any reason. This essentially means that all customers share in the liabilities of all other customers. In this respect, the structure is similar to the "joint and several" liability structure of the Federal Home Loan Bank Board, another AAA rated issuer of taxable bonds that garners some of the lowest interest rates from the market.

Q. With respect to various investment characteristics, how do ratepayer-backed bonds compare to corporate bonds?

A. Ratepayer-backed bonds are a corporate security with several superior features. In a recent offering of similar bonds in Texas, underwriters and others described the credit compared to utility corporate bonds succinctly in an investor presentation:

> "The (securitization) bond is a plain vanilla, senior secured sinking fund bond...there are no complicated structures, subordinations or special features. The money comes from the same source, the customer's electric bill, as first mortgage bonds do but with no utility operating expenses crowding out the flow of funds to investors. In addition, there are special protections in the law for bondholders with a government guarantee to implement an adjustment mechanism to provide expected revenues for timely payment of principal and interest. This makes the revenue source guaranteed by law and not subject to the vagaries of utility rate cases. To ensure timely payment, a regularly required adjustment of the revenue source is also guaranteed by law, again not subject to the vagaries of utility rate cases meaning there is effectively no credit risk for all practical purposes." (Comments made by Lee Mallet of Credit Suisse in an Internet Roadshow for the Texas Transition Bond offering of CenterPoint Energy, December 2005)

Point by point, when compared to Gulf secured first mortgage bonds, for example, the superior credit quality of storm-recovery bonds becomes clear. The revenue that supports the repayment of storm-recovery bonds is collected under an irrevocable financing order as opposed to a general rate order. Unlike first mortgage bonds, whose related revenue stream is subject to a periodic challenge in a rate case, storm-recovery charges are not subject to traditional ongoing regulatory review, and therefore there is none of the typical regulatory risk associated with storm-recovery bonds. To guarantee that expected revenues will be sufficient to make timely interest and principal payments on the storm-recovery bonds, the FPSC by law must directly, explicitly, unconditionally, and irrevocably guarantee in the financing order to adjust the charge to whatever level is necessary to provide the expected revenue to meet the payment schedule. Gulf's first mortgage bonds do not have this feature.

The importance of these protections became evident following the energy crisis in California in the early part of this decade. As a result of the crisis, some of California's major electric utilities' debt fell to below investment-grade ratings. Despite those downgrades, and as a further highlight of the benefits of securitization, the ratepayer-backed bonds previously issued for the benefit of these California utilities continued to be rated AAA, and they continue to be rated AAA today.

Like ratepayer-backed bonds issued for the benefit of California utilities, storm-recovery bonds are not subject to such risks. They are to be issued through a bankruptcy-remote entity, and the revenues generated by storm-recovery charges will clearly be the property of the issuer, will be dedicated to the repayment of principal and interest on storm-recovery bonds, and cannot be diverted to other purposes.

Q. Why is this important to ratepayers?

A. These features suggest that the credit spread between Gulf's corporate bonds and these ratepayer-backed bonds should be large i.e., lower in yield/cost to the ratepayer, because the investor is protected from all of the risks of Gulf's traditional debt.

Q. With respect to various investment characteristics, how do ratepayer-backed bonds compare to asset-backed securities?

A. Ratepayer-backed bonds are financial instruments that have been analyzed and compared to asset-backed securities because of some of the structural features of ratepayer-backed bonds, most notably the use of an SPE as the issuer.[4] Asset-backed bonds are bonds backed, for instance, by credit-card receivables and student loans.

The fundamental difference between storm-recovery bonds and typical asset-backed securities is the absence of an asset that meets the traditional definition included in all asset-

[4] In the case of ratepayer-backed bonds, the isolation of an asset in an SPE does not necessarily make securities offered by that SPE an asset-backed security.

backed securities. Asset-backed securities are backed by a discrete pool of receivables or other financial assets. The characteristics of those types of instruments are not directly analogous to storm-recovery property.[5] Moreover, the characterization of ratepayer-backed bonds as "asset-backed securities," and the comparison of ratepayer-backed bonds to these other more complex and risky instruments has caused confusion among potential investors which in turn has driven up yields on ratepayer-backed bonds. In Mr. Kim's Exhibit JK-1, Schedule 1, he lists issuances in the ABS market by collateral type and the label for the storm recovery bond type is "Utility Receivables". However, the collateral backing the storm recovery bonds is not a receivable. It is a specific right to bill charge and collect a specific tariff from all customers and is not similar to any of the other "receivable" transactions listed on Mr. Kim's chart.

In the most recent offering of ratepayer-backed bonds, Texas Transition Bonds issued in December 2005 for the benefit of CenterPoint Energy, the underwriters, which included Mr. Kim and Barclays, presented specific side-by-side comparisons of these bonds to three different types of corporate securities: asset-backed securities such as credit card receivable-backed bonds, utility first mortgage bonds, and U.S. agency securities. The underwriters concluded that the best comparable corporate securities were U.S. agency securities, such as debt obligations issued by FNMA and FHLC. I agree with that conclusion.

Q. Why is this comparison to U.S. agency securities important to ratepayers?

A. U. S. agency securities are comparable to ratepayer backed bonds and indicate the potential lower costs that ratepayer bonds could achieve. They are triple-A rated, receive a 20% risk weighting overseas, and do not have the direct backing of the government for any of its

[5] In fact, the Office of Chief Accountant of the Securities and Exchange Commission has specifically ruled that transition property, which is very similar to storm recovery property, is not a financial asset. Like transition property, storm-recovery property is not a receivable.

obligations.

Q. Why is this distinction between asset-backed securities and ratepayer-backed bonds important to ratepayers?

A. The capital markets are segmented into many distinct segments that price and trade securities with different conventions and therefore different outcomes for those with the economic burden of repaying newly issued debt. The most obvious example of the different segments is between the debt and equity securities. Even within the debt capital markets (also known as the fixed income market) there are numerous segments. Within the United States domestic markets, for example, municipal bonds trade separately from corporate securities. There is further differentiation among corporate securities offered by finance companies versus securities offered by industrial companies versus securities offered by utilities. In addition, there is a distinct market for asset-backed securities, which is dominated by securities backed by home mortgages and other receivables.

Within investment banks, underwriting firms, and broker-dealers, these market segments are often covered by separate organizational units with separate bankers, traders and salesmen. The capital available, as well as the underwriting, trading, and risk management policies may vary significantly among the market segments within the firm.

The customers of investment banks are also segmented. Large mutual funds, for example, operate under strict investment criteria and follow specialized investment strategies set by money managers. Because certain monies are designated only to certain "types" of investments, investment banks may seek fees and profits from supporting these large customers to the exclusion of smaller accounts, and marketing and sales efforts for utility securitizations can become more complicated.

The labeling of a security within one of these market segments, regardless of how accurate that is, will influence how investors value the security's credit features and other factors. This, in turn, affects the cost of the security.

Q. Is there a name generally used among market professionals to describe this comparison between similarly rated securities that carry different interest rates?

A. Yes. It is called the "relative value" of the security.

Q. Don't all securities that have an identical "AAA" rating price identically?

A. Absolutely not. There are wide discrepancies in pricing between and among securities of the same rating, even within the same market segment. See EXH JSF-3, which compares pricing on the recent CenterPoint transaction and comparable AAA rated credits. These discrepancies can be dramatic and expensive to ratepayers in the pricing of ratepayer-backed bonds.

Some of the minor discrepancies can be attributed to structural differences, such as the sinking-fund schedule. Further, the size of the offering can affect investors' perception of the ability to buy and sell a security easily. This is known as the bonds' "liquidity." These differences may also result from the relative efforts of issuers to educate the market and investors about their respective securities.

The differences in pricing among AAA rated securities underscores the fact that the ratepayers backing these bonds will not automatically receive the benefit of the best price for the bonds simply because the bonds are AAA rated. In fact, all of these discrepancies can be minimized or eliminated through proper structuring, marketing and pricing of ratepayer-backed bonds.

Q. Are there any structural reasons that would account for the pricing differences between ratepayer-backed bonds and similarly rated securities?

A. Yes, but they would only account for a small portion of the difference. Other factors affecting price relate to investor perception of the credit, the structure and the perceived liquidity (ability to buy and sell it in the secondary market) of the security, distribution efforts, transparency of pricing and trading, and other technical and fundamental factors.

Q. How does appealing to the appropriate investor segment affect the cost of ratepayer-backed bonds?

A. Appealing to the appropriate investor segment creates the baseline by which investors value the security and, in part, determines the interest rate they will accept to hold the ratepayer-backed bonds. It determines who competes for the bonds and how. For example, an investor who wishes to make a quick trading profit would want a very high interest rate on the bonds. Investors who are very concerned about maintaining their principal for the long-term and who do not expect to sell the bonds in the near future may accept a lower interest rate because those investors are more concerned about long-term risk than a quick profit. Foreign investors who want safety in U.S. dollars (e.g., China) might also be willing to accept lower yields than U.S. domestic hedge fund managers who have high yield targets for their investment portfolio in order to keep attracting capital inflows to their funds.

Furthermore, appealing to a broad base of investors, rather than targeting a small group of large accounts, will create greater competition. Large investor accounts often believe they have "market power" and therefore can demand higher yields for quick execution with their capital. Although underwriters are sometimes willing to oblige them, competition with other underwriters and investors can drive the market to lower costs. But this is not automatic; it must be required by the issuer.

Q. How will marketing and investor education affect the cost of storm-recovery bonds?

A. Consider the analogy of trying to sell a home. If the seller simply puts out a sign in his/her yard and accepts the first offer that is given from whoever drives by, that will be one price. But if the seller lists the home with an agent who creates marketing materials that clearly and accurately explain the benefits of the house and even conducts an open house for prospective purchasers so as to educate them on the property and then receives offers from multiple bidders that will be another price. The latter likely will be a significantly higher price.

The difference in price achieved will largely be a factor of how well the home was marketed, i.e. how well prospective investors understood the value of the home relative to competing investments.

In issuing bonds, there are specific rules and regulations to follow, disclosure and marketing documents to be filed with regulators. The bonds compete with multiple contemporaneous investments. But investors' fundamental valuation comes from an understanding of the credit, its liquidity, "relative value" and the functioning of the capital markets. These are not naturally occurring outcomes; they are affected by actions.

Accurate market education does not happen by itself. It usually occurs only if undertaken and pursued vigorously by those who have a stake in the outcome. For example, Gulf, as well as almost all other corporations, spends a great deal of shareholder resources in promoting and educating the market for its stock. The management invests this time and energy because it believes that from true market education and a better understanding of its company, the valuation of the company's stock will increase for the benefit of shareholders. The management also targets efforts at lenders to lower the company's borrowing costs because it expects to need debt capital on an ongoing basis.

With storm-recovery bonds, because Gulf is not responsible for any costs of borrowing, as it otherwise would be in a traditional debt offering, Gulf has no stake in the outcome other

than to receive the cash and improve its balance sheet as quickly as possible. Moreover, the transaction is likely viewed from Gulf's perspective as a one-time offering, or, at the very least, an infrequent offering, so its need to make a concerted effort to educate the market regarding the benefits of storm-recovery bonds is diminished.

While well intentioned, Gulf management also is distracted by independent concerns stemming from the fact that its current debt is a direct obligation of its shareholders, and storm-recovery bonds are not. Therefore, there is little incentive for Gulf to invest time and effort in educating the market, expanding the market, or creating as broad a competition as possible for this or other storm-recovery bond issuances.

As the beneficiary of the storm-recovery bond issue, Gulf can and should work collaboratively and collegially with the Commission, staff and advisors to achieve a successful lowest cost financing. The Commission, through the use of independent advisors with a duty of loyalty and care to the Commission, can and should take a co-leadership role with Gulf in marketing and in investor education efforts. A joint and collaborative effort can best serve the interests of ratepayers while fully addressing the financing needs of the utility.

Q. Will all credit risk be eliminated in connection with storm-recovery bonds?

A. No. It is possible to imagine extraordinary facts or circumstances in which holders of storm-recovery bonds will not receive payments of principal or interest when they come to be legally due and owing. For example, if the entire human population in Gulf's entire electric service area were suddenly destroyed by a nuclear attack that made the service area uninhabitable, holders of storm-recovery bonds would not receive payments of principal or interest when they come to be legally due and owing. However, this is not practical. In all practical circumstances, I expect models prepared by the underwriters for the rating agencies will show that the faithful application of an automatic mechanism pursuant to which the Commission has

committed to apply a pre-approved mathematical formula to increase the storm-recovery charge to whatever level is forecasted to be necessary (taking into account the most recently updated forecasts of electricity usage, collection curve and write-offs) to ensure timely payment of scheduled principal, interest and other amounts payable in respect of the storm-recovery bonds will eliminate all credit risk.

Q. Have ratepayer-backed bonds ever been sold using prospectuses or other marketing materials which characterized the credit risk in this way?

A. Yes. The two most recent prospectuses pursuant to which ratepayer-backed bonds were sold to the public, for the benefit of Texas utilities, state that 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 associated with those ratepayer-backed bonds.[6]

Q. In which transaction was this language first used?

A. This language was first used in a 2004 Texas transaction for TXU Electric Delivery Company.

Q. Did Saber participate in that 2004 TXU Electric transaction?

A. Yes. Saber served as financial advisor to the Public Utility Commission of Texas.

Q. Did Saber draft this language and insist that it be included in the prospectus and other offering documents for the 2004 TXU Electric utility securitization transaction?

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[6] *See* CenterPoint Energy Transition Bond Company II, LLC's prospectus dated December 2, 2005, in connection with $1,851,000,000 principal amount of Senior Secured Transition Bonds, Series A, page 34:

> "The broad-based nature of the true-up mechanism and this pledge by the State of Texas, along with other elements of the transition bonds, will serve to effectively eliminate, for all practical purposes and circumstances, any credit risk associated with a series of transition bonds (*i.e.*, sufficient funds will be available and paid to discharge all principal and interest obligations on such series of transition bonds when due)."

(http://www.sec.gov/Archives/edgar/data/1336265/000090514805004777/0000905148-05-004777.txt.) *See also* TXU Electric Delivery Transition Bond Company LLC's prospectus dated May 28, 2004, in connection with its $789,777,000 principal amount Transition Bonds, Series 2004-1, page 56:

> "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 associated with the transition bonds (i.e., that sufficient funds will be available and paid to discharge all principal and interest obligations when due)."

(http://www.sec.gov/Archives/edgar/data/1100179/000095012004000393/0000950120-04-000393.txt)

A. No. The language was proposed and drafted principally by two nationally recognized outside legal counsel for TXU Electric, the sponsoring utility. For the reasons described earlier in my testimony, Saber believed that an accurate description of the State Pledge and the automatic true-up adjustment mechanism, together with a better plan for engaging investors regarding the inherent strength of the credit supporting ratepayer-backed bonds, could lead to narrower credit spreads against benchmark securities than had been achieved in connection with prior ratepayer-backed bonds. Saber believed this could be achieved through a better understanding by investors of the fundamental risks of those ratepayer-backed bonds. Saber asked TXU Electric to propose language for inclusion in the prospectus and other offering documents for the 2004 ratepayer-backed bonds. This would explain the powerful, positive effects of the State Pledge and the automatic true-up adjustment provisions with greater clarity than had been done in offering materials for prior ratepayer-backed bonds.

Q. Do you believe this language has accurately described prior ratepayer-backed bonds in connection with which it has been used?

A. Yes. In each case, the underwriters constructed detailed and sophisticated financial models to test whether interest and principal on the ratepayer-backed bonds would be paid when legally due, even under severe stress scenarios. For example, Fitch Ratings, in a 2005 Presale Report explaining to investors the basis for assigning a "AAA" rating to $1,857,000,000 of ratepayer-backed bonds being issued for the benefit of CenterPoint, stated:

> " . . . 'break the bond' cases provide an alternative means by which to measure the potential effects of rapid, significant declines in power consumption. The magnitude of several decreases is evaluated in these stress cases, which focus on the break-even point for the bonds at the specified year and beyond.
>
> "In these scenarios, the structure is able to withstand a maximum consumption variance of approximately 26.5% in year one, 61.5% in year five, 88.0% in year 10, and 41% in year 14. . . . Despite these extreme variances in each case, due to the true-ups, the [securitized

charge] is adjusted annually and is still able to pay all debt service by the legal final maturity date."[7]

None of these are "practical circumstances", especially in the context of an electric system as large and diverse as CenterPoint's. Once similar, detailed and sophisticated financial models are constructed to model storm-recovery bonds to be issued for the benefit of Gulf, I anticipate these studies will reach similar conclusions.

Q. Did CenterPoint and its outside legal counsel readily agree to include the same credit risk disclosure language that TXU Electric drafted and included in the prospectus and other offering materials for its 2004 ratepayer-backed bonds?

A. No. This kind of disclosure is not traditional. Also, the outside counsel to CenterPoint was different from the outside counsel to TXU Electric and was not as experienced in ratepayer-backed bond transactions. (Furthermore, experience with other transactions has shown that counsel used in different transactions often seem to change the work of other counsel without necessarily adding value.) This kind of disclosure is not traditional because it is highly unusual for securities to have the extraordinary credit features associated with ratepayer-backed bonds compared to all other securities offered in the capital markets. The initial reaction of CenterPoint and its outside counsel was to question including this statement in the prospectus and other offering materials. But after they had the benefit of the results of the modeling studies described above, and after conducting their own factual and legal evaluation, CenterPoint agreed to include this language in the prospectus and other offering materials.

Q. Did CenterPoint's outside legal counsel deliver standard "10b-5" comfort to the underwriters, the trustee and the rating agencies in connection with the 2005 ratepayer-backed bonds?

[7] Fitch Ratings, *Asset-Backed Presale Report, CenterPoint Energy Transition Bond Company II, LLC, 2005 Series*

A. Yes. At closing, like TXU Electric's outside legal counsel, CenterPoint's outside legal counsel delivered the following standard securities law 10b-5 comfort to the underwriters, the trustee and the rating agencies:

> ". . . no facts have come to our attention that lead us to believe that . . . the Final Prospectus, as amended, supplemented or modified [excepting operating statistics, financial statements, and other financial and statistical information] as of the date hereof contains, any untrue statement of a material fact or omitted to make the statements therein, in light of the circumstances under which they were made, not misleading."

Nationally recognized underwriter's counsel also reviewed and accepted the disclosure language. This was the same case in the 2004 TXU Electric transaction.

Q. Do you believe this disclosure language accurately describes all ratepayer-backed bonds?

A. Not necessarily. For example, some states have imposed caps on the authorized levels of the securitized charge for some or all classes of customers. Examples include California, Pennsylvania and New Hampshire. In those situations, careful analysis would be required to determine whether there are any practical circumstances in which such caps might prevent the automatic true-up adjustment from rising to the level required to make timely payment of all legally due principal and interest.

Q. Do you anticipate that this disclosure language will accurately describe the credit risk associated with storm-recovery bonds to be issued for the benefit of Gulf?

A. Yes. Of course, it will be necessary for the underwriters to construct detailed and sophisticated financial models specific to Gulf to test whether interest and principal on the storm-recovery bonds will be paid when legally due, even under severe stress scenarios. But so long as the Commission imposes no cap on the permitted levels of storm-recovery charges and maintains strict limits on consumers' ability to bypass the storm-recovery charge, I

anticipate these models will confirm that 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 (i.e., that sufficient funds will be available and paid to discharge all principal and interest obligations when due) associated with the storm-recovery bonds issued for the benefit of Gulf

Q. Has a state commission ever specifically found that the broad-based nature of the true-up mechanism and the State Pledge will serve to effectively eliminate, for all practical purposes and circumstances, all credit risk associated with ratepayer-backed bonds?

A. Yes. Such specific findings of fact were included in the most recent financing order issued by the Public Utility Commission of Texas[8] and in the financing order issued by the Wisconsin Public Service Commission[9] and by the West Virginia Public Service Commission.[10]

Q. Are there any other special features that could be associated with ratepayer-backed bonds ?

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[8] PUCT's 2005 Financing Order issued to CenterPoint (Docket No. 30485), Finding of Fact 107:
"The broad-based nature of the true-up mechanism and the pledge of the State of Texas embodied in PURA § 39.310, along with the bankruptcy remoteness of the special purpose entity and the collection account, will serve to effectively eliminate for all practical purposes and circumstances any credit risk associated with the transition bonds (i.e., that sufficient funds will be available and paid to discharge all principal and interest obligations when due)."

[9] Wisconsin PSC' 2004 Financing Order issued to Wisconsin Electric (Docket 6630-ET-100), Finding of Fact 73:
"The broad-based nature of the true-up mechanism and the State Pledge will serve to effectively eliminate, for all practical purposes and circumstances, all credit risk associated with the environmental trust bonds (*i.e.*, that sufficient funds will be available and paid to discharge all principal and interest obligations when due."

[10] West Virginia PSC' 2006 Financing Order issued to The Potomac Edison Company and Monongahela Power Company (Case Nos. 05-0402-E-CN and 05-0750-E-PC), Finding of Fact 60:

"The broad-based nature of the true-up mechanism and the pledge of the State of West Virginia embodied in W. Va. Code § 24-2-4e(q) serve to effectively eliminate for all practical purposes and circumstances any credit risk associated with the Certificates and the Environmental Control Bonds (*i.e.*, that sufficient funds will be available and paid to discharge all principal and interest obligations when due)."

."

A. Yes, the bonds may qualify for a 20% risk weighting under the Basel Accord in the United Kingdom, Ireland and other countries. Recently, similar ratepayer-backed bonds issued from Texas qualified for this treatment from regulators in the United Kingdom.

Q. What is risk weighting, and why is it important to ratepayers in Florida?

A. A 20% risk weighting has little to do with the credit risk of the bonds but has to do with certain international credit standards for banking institutions that could be major investors in storm-recovery bonds and could create greater competition for the storm-recovery bonds. A 20% risk weight can help dramatically expand the market for these securities to increase competition and lower costs. See EXH JSF-4, for a further explanation of the benefits of risk weighting. The Gulf application is silent as to whether Gulf would attempt to structure the storm-recovery bond transaction in a way to qualify for 20% risk weighting.

Q. Were any ratepayer-backed bonds sold overseas in the most recent Texas transaction as a result of a 20% risk weighting?

A. Yes. Over $1 billion in orders were received from overseas investors, and one-third of the bond issue was sold to investors interested in the 20% risk weighting. Even though only $600 million of these orders were accepted, $1 billion in orders from a small group of investors is indicative of the potential market that could be developed for storm-recovery bonds. This likely would add to competition and lower costs.

Q. Do you believe that there is much "value added" left in the markets for ratepayer-backed bonds, such that thorough education and market expansion efforts by an active financial advisor would be effective in lowering costs?

A. Yes. As shown in my EXH JSF-3, recent ratepayer-backed bonds such as the CenterPoint transaction which priced in December 2005, are not yet valued by the market as equivalent to comparable AAA-rated debt issues to the extent they should be. The Exhibit includes debt

issued by U.S. government-sponsored entities such as Freddie Mac and Fannie Mae, sovereign credits such as the European Investment Bank, AAA-rated debt issued by industrial firms such as Pfizer and Johnson & Johnson, and "asset-backed" credit card securities.

Ratepayer-backed bonds are priced barely more favorably than AAA-rated asset-backed credit card securities, and substantially less favorably than all other AAA-rated debt. This is despite the fact that ratepayer-backed bonds have virtually none of the risks associated with either asset-backed credit card securities or AAA-rated debt issued by industrial firms. Thus, one may conclude that, with investor education and market expansion, the pricing of ratepayer-backed bonds can improve and reflect their inherent relative advantages over comparable asset-backed securities.

The 2005 CenterPoint transaction was still a record transaction, with a lower yield and lower ratepayer costs than any and all previous ratepayer-backed bond transactions of similar size and maturities, particularly on the important long maturities of 10 and 13 years (important because the interest on these maturities are paid for 10 and 13 years vs. interest on, say, 2-year debt being paid for only two years). Texas ratepayer-backed bonds have consistently priced at least as well as the best credits in the asset-backed securities market, but with substantial upside (i.e., lower interest rates) still possible for the credit and size of issuance once investors come to fully appreciate the relative value of ratepayer-backed bonds.

Structuring, Marketing and Pricing

Q. Please describe what is meant by the phrase "structuring, marketing, and pricing" of ratepayer-backed bonds?

A. "Structuring" refers to the legal documentation and the delineation of rights, duties, responsibilities and actions of various parties to the transaction under current and anticipated market conditions affecting the bonds and the interaction with investors. Structuring also

refers to the specific payment schedule for the bonds, the maturity, aggregation of cash flows in tranches (a series of maturities within the bond issue) and the method and frequency of payment.

"Pricing" refers to the actual interest rate and costs assigned to the bonds in exchange for cash. Generally, the bonds are first sold to a group of investment banks (underwriters) who resell the bonds to investors based on discussions with those investors during the pricing process.

"Marketing" is an aspect of "structuring" and "pricing." It refers to the communication of the terms, conditions, credit and relative-value investment thesis to the underwriters and potential investors in preparation for pricing including the prospectus, term sheet, roadshows, investor meetings and similar communications.

Q. Please explain why you recommend active Commission oversight.

A. Ratepayers need to be represented in the transaction. In the absence of Commission oversight with the use of its own independent experts and advisors reviewing the financing order and the underlying documents, there is no opportunity past the issuance of the financing order to review potential changes to the documents that could impose additional costs or risk on the ratepayers. In all negotiations there needs to be a balance of competing interests. In any negotiation each side will look out for its own economic interest. In the negotiations involving these securities, as proposed by Gulf, there would be no one involved in the negotiation with a direct responsibility to the ratepayers as their first and foremost interest. The only entity that can fulfill that role is the Commission or its designated personnel and Financial Advisor.

Q. Regarding ratepayer-backed bonds issued in other states, have commissions been actively involved in the structuring, marketing, and pricing of these transactions after the issuance of the financing orders?

A. Yes. Commissions in Texas, New Jersey, and California--and prospectively Wisconsin and West Virginia--have been actively involved in the structuring, marketing and pricing of ratepayer-backed bonds. Significantly, the California Public Utilities Commission, which was one of the first states to sponsor ratepayer-backed bonds, initially did not participate actively after issuing its financing orders in 1997 and 1998. However, when a second round of ratepayer-backed bonds was authorized in 2004, the California Commission created an active role for a Commission financing team to approve all matters post financing order. The Texas Commission has had the most active post-financing order participation.

Two transactions in the past year illustrate the results that can be achieved by an active and involved commission in the structuring, marketing and pricing of ratepayer-backed bonds. In September 2005, Public Service Electric and Gas Company of New Jersey sponsored the issuance of $102 million of ratepayer-backed bonds. Saber served as financial advisor to the New Jersey Commission and Credit Suisse (CS) (formerly Credit Suisse First Boston) was the lead underwriter. Normally a transaction of this size might have been difficult to sell because of its small size relative to other competing investments. However, according to a report written by CS to the New Jersey Commission,

> "The extensive marketing of these bonds conducted by CS, Barclays and M.R. Beal, with active participation by Saber, led to the unprecedented (low) pricing spreads, despite the disadvantage of relatively small tranche sizes."

In December 2005, CenterPoint Energy of Texas initially offered $1.2 billion of ratepayer-backed bonds to the market. Saber was the financial advisor with joint decision-

making responsibility with the issuer. The Commission acted by and through the financial advisor. CS was one of the bookrunning underwriters. In this case, the large size of the transaction, coupled with the timing of the issuance at the end of the year (which traditionally is not a good time to sell securities) posed special challenges. Nevertheless, the ratepayer-backed bonds received worldwide investor demand at record-low credit spreads. The transaction was increased to $1.85 billion with over one-third of the bonds being sold to foreign investors for the first time ever. This transaction was also notable because of the large amount of bonds sold with very long maturities which are the type of bonds most costly to ratepayers. Yet, the credit spread levels achieved by the Texas Commission for ratepayers through these Texas ratepayer-backed bonds on the longest maturities were significantly below all other previously offered ratepayer-backed bonds in any state.

CS is the current storm-recovery bond advisor to FPL. Barclays is the current storm-recovery bond advisor to Gulf. Both firms have been able to work well under the active oversight of other state commissions and their financial advisors after the financing order has been issued and up to the time ratepayer-backed bonds were issued. There is no reason why these same firms should not be able to work collaboratively with the FPSC and Saber after a financing order has been issued and up to the time the storm-recovery bonds are issued in the proposed transactions as well.

Q. How does having active Commission involvement in the structuring, marketing, and pricing of ratepayer-backed bonds after the issuance of the financing order ensure lowest cost?

A. An active Commission that is involved throughout the structuring, marketing, and pricing of the ratepayer-backed bonds is important because ratepayers are the sole source of funding for these bonds. The financing order is irrevocable, and therefore the interests of ratepayers need

to be fully reflected at every step of the process. Gulf and its agents have specific interests in the outcome of this transaction, and those interests might diverge in some respects from those of ratepayers. Nevertheless, a cooperative and collaborative effort can occur to reach a common goal.

In this case, the nature of the financing process is such that many decisions affecting ratepayer costs and risks cannot be known until after a financing order has been issued. Gulf accepts that there should be a post-financing order-review process but has proposed a process that omits Commission approval of some of the most important final terms and conditions ultimately affecting ratepayers. By having transaction oversight and approval by the Commission at every step after issuance of the financing order, the Commission can work with Gulf during all critical stages to ensure that the lowest cost is achieved.

Q. Do ratepayers have an economic interest in ensuring that the marketing documents are complete and accurate?

A. Yes. The automatic true-up mechanism places ratepayers at risk if there is any false or misleading information included in the marketing documents, or if there is any material omission of information from the marketing documents. Should there be a default on the storm-recovery bonds and should investors suffer a loss, the investors may claim that there was inappropriate disclosure of this risk to them in the marketing materials. The investors would assert a claim against the SPE and other parties to the transaction. If their claim against the SPE succeeded, any damage award payable by the SPE would be a revenue requirement in the semi-annual true-up and would be reflected on all ratepayer bills. In addition, even if a claim asserted by investors is ultimately unsuccessful, attorneys' fees and other litigation expenses incurred by the SPE in defending the matter would be a revenue requirement in the semi-annual true-up to be reflected on all ratepayer bills. Consequently, ratepayers have a

direct and urgent interest that the marketing documents do not contain any statements that are false, misleading or incomplete. In this respect, their interests are aligned with the interests of the SPE issuer and the utility.

Q. Are there other aspects in the documentation in which the interests of ratepayers and the utility are not aligned?

A. Yes. Due to the automatic true-up mechanism, ratepayers bear all the economic burdens of paying debt service on storm-recovery bonds. For this reason, ratepayers are interested in providing the most accurate and complete information to investors so as to have the investors fully understand the strong credit features of storm-recovery bonds and properly value them in any negotiation. Because the utility does not share any economic burden of the bonds, the utility lacks the same incentive to provide the most complete disclosure of favorable information. In fact, where ratepayers would directly benefit from the disclosure of accurate and complete favorable information (to achieve a proper valuation of the storm-recovery bonds), the utility might conclude that such disclosure increases the utility's risk without a corresponding financial benefit to the utility. Ratepayers therefore have an interest in the most complete disclosure of favorable information possible, whereas the utility may resist this result.

Q. Why should the utility not have complete and unfettered discretion over any and all disclosure?

A. Disclosure, marketing, and other items must always be evaluated first for accuracy. No false or misleading statement should be included under any circumstance. Second, a proposed disclosure of information which the parties believe to be true and not misleading should be evaluated in light of potential benefits and risks. As a practical matter, in the absence of fraud, the strength of the Florida storm-recovery bond law, including the state pledge, and the broad-

based true-up mechanism make any liability arising from the content of the prospectus or other marketing materials remote unless there has been a default or other event disrupting or threatening to disrupt the timing or amount of payments on the storm-recovery bonds.

The process for writing and reviewing disclosure documents requires extensive due diligence on the part of all transaction participants. No one participant should supersede other participants; there must be a balancing of competing interests based on rigorous analysis of facts and the making of informed judgments. Thus, while the Commission itself might not be exposed to securities law liability, if the Commission were to believe that disclosure language proposed by anyone is materially false or misleading, it should decline to allow the storm-recovery bonds to be issued so as to avoid exposing ratepayers to the SPE's potential securities liability by means of the true-up. Similarly, if at the end of the day the utility were to believe disclosure language proposed by anyone is materially false or misleading, it would have a responsibility to decline to allow the storm-recovery bonds to be issued. To date, to the best of my knowledge and belief, this never has been the case. To the contrary, outside legal counsel for both the issuer and the underwriters in connection with each prior issue of publicly offered ratepayer-backed bonds, after carefully reviewing all disclosure in the prospectuses, have delivered letters confirming that nothing to their knowledge would lead them to conclude that the prospectus disclosure was materially false or misleading.

Q. Why is it necessary for the Commission to engage an experienced financial advisor to assist in its legislative duty?

A. The Commission and its staff have many years of experience in reviewing and approving the issuance of traditional utility debt and equity securities. But the Commission and its staff do not have experience in reviewing and approving ratepayer-backed bonds where the utility has little or no incentive to minimize the rate of interest or the costs of issuance, or to offer

reasonable representations, warrantees and covenants for the benefit of ratepayers to whom they owe no fiduciary duty.

Through storm-recovery charges, Gulf ratepayers will be paying the cost of outside legal and financial advisors retained by Gulf even though these professionals have a duty of loyalty and care to protect the interest of Gulf's shareholders. It is important that ratepayer interests are similarly protected in this transaction by experienced and active professionals that have a duty of loyalty and of care to ratepayers.

With the help of experts intimately familiar with the legal and financial nuances of ratepayer-backed bonds, the Commission can ensure that ratepayers' interests are protected. Actively involved independent financial advisors add tremendously to the Commission's ability to reach this goal. For example, corporations and financial advisory firms interface regularly with public capital markets, whereas utility commissions do not. Financial advisors are intimately familiar with the structuring, marketing, and pricing of ratepayer-backed bonds, as well as the participants in the corporate, "asset-backed" and international securities markets. Therefore, a financial advisor provides critical information and perspective to the Commission to discharge its duties.

Q. What have been the benefits to ratepayers/commissions of active financial advisor involvement in the structuring, marketing, and pricing of ratepayer-backed bonds issued in other states?

A. The benefits have taken the form of reduced ratepayer risks, improved ongoing regulatory oversight of the SPE, transparency in the pricing process to maintain the integrity of the process and trust of consumers, and enhanced economic benefits for ratepayers. Commission involvement also has created a knowledge base in the Commission of a significant new financing technique for possible future use within the state.

Q. Is there any evidence that active Commission oversight of the process in pursuing the lowest cost has saved ratepayers dollars in other transactions?

A. Yes. The five Texas Transition Bond transactions, for example, consistently have out-performed other similar transactions and even secondary market levels from 2001 to the present. A study presented to Saber by Citigroup in 2003 estimated that the three Texas transactions done by the time of the study saved ratepayers $18 million in net present value interest savings compared to similar transactions EXH JSF-5. One year later, an economist on the staff of the Wisconsin Commission conducted an analysis of the four Saber-managed Texas transactions and concluded:

> "Statistical analysis of actual securitization data suggests that for a 10-year securitization issue, Saber's advice would reduce the yield spread on the security by about 15 to 20 basis points. For a $500 million security, this amounts to a savings of $750,000 to $1,000,000 per year. The savings estimates are statistically robust in that several different approaches provide similar answers.
>
> "This analysis confirms the strong recommendation received from the staff of the New Jersey Board of Public Utilities and Texas Public Utility Commission that Saber's advice adds substantial value for the ratepayer. It also confirms some of the concerns of our staff that the proposed deal [in Wisconsin] in this proceeding reflects a potentially less-than-cost-effective relationship-type arrangement between the utility and its investment bankers, rather than a more competitively arranged deal." (from "Analysis of the Potential Savings from Saber Partners". Steven G. Kihm, Economist and Certified Financial Analyst, October 2004)

Moreover, in helping state commissions oversee this process, Saber has conducted competitions for underwriting positions and has recommended payment for underwriters through a system based on performance. As a result of these two innovations, underwriting and structuring fees borne by ratepayers were substantially reduced from the amounts that utilities had proposed to pay underwriters. For example, in Texas, CenterPoint and its financial advisor proposed a fee of 0.55% of the principal amount of the ratepayer-backed

bonds, or approximately $10.2 million. The final fee negotiated by Saber was 0.38% of the principal amount, or $7 million, which was a net savings of approximately $3 million in up-front fees. Saber was paid $925,000 in that transaction. In the 2005 Public Service Electric and Gas transaction in New Jersey, the utility had proposed an underwriter, Citigroup, for a structuring fee of approximately $500,000 plus 0.50% of the principal amount, with 80% guaranteed to Citigroup regardless of how it performed for ratepayers in the transaction. Saber created a competitive process and selected new underwriters, reduced the structuring fee by $400,000 and the underwriting fee to 0.48%, with a majority of the fee to be paid based on performance in a competitive process among all underwriters rather than guaranteed to the lead manager regardless of performance.

Further confirming evidence is found in ratepayer-backed bond pricings in relation to other market comparables. In Mr. Kim's testimony, Gulf compares ratepayer-backed bonds to asset-backed securities. The lowest yielding fixed-rate asset-backed securities are credit card-backed bonds. In a study prepared by Barclays and presented to Saber, Barclays showed that when Texas ratepayer-backed bonds and similar bonds from other states were compared to generic fixed-rate credit card bonds on the date of issue for the important approximate 10-year tranche, Texas ratepayer-backed bonds consistently achieved lower costs and by a wide margin. Similar savings were achieved for different maturities as well. This "relative value" shows the effectiveness of a program over time. This same result was confirmed by Citigroup (FPL's former advisor) in 2003 and by CS (FPL's advisor) and Lehman Brothers in 2005, and has been verified by Saber Partners as well. (See EXH JSF-5 and EXH JSF-6)

Finally, the financial press and other independent observers have commented on Texas ratepayer-backed bond transactions and other ratepayer-backed bond transactions that have involved an active Commission in the structuring, marketing and pricing of bonds to protect

ratepayer interests Some of those articles are included in EXH JSF-7. Of course, past performance is not a guarantee of future results. The process must adapt to changing market conditions.

Q. Have market conditions changed so as to undermine the validity of these studies?

A. Markets change all the time. The analyses demonstrated positive results for ratepayers under a variety of conditions and in relation both to other ratepayer-backed bonds actually sold and to comparable securities on a contemporaneous basis. It is important to examine results under a variety of market conditions because one will not know with certainty the conditions that will exist when the storm recovery bonds will be issued. Sample size is always an important variable. It is more appropriate to have a larger sample so as to eliminate any biases inherent in a smaller sample.

Prior to the analyses of these active commission transactions, more than $26 billion in 18 transactions had been issued. The market was considered well established so changes in pricing patterns since then can be detected. These analyses compared actual pricing results using a large sample over a long period of time under a variety of market conditions in order to determine trends and outcomes. All deals except for two very high credit spread transactions were analyzed so as not to skew any results. The Wisconsin analysis used a sophisticated regression analysis with a specific factor to take into consideration the timing of the transactions. All studies were done by independent parties who did not have a stake in the outcome of the results.

Q. Has pricing in the new issue ratepayer-backed bond market over the past two years, i.e., since 2004, been substantially different than the past?

A. The new issue ratepayer-backed bond market has seen eight new issues since 2004, with six of those occurring in 2005. Credit spreads on those transactions have been tighter than at any other time in the history of this market segment. Seven of the eight transactions had active State or Commission involvement through a financial advisor in all aspects of the structuring, marketing and pricing of the securities. In December 2005, Texas was the first state to see a substantial amount of bonds purchased by foreign investors because of the favorable 20% capital risk weighting the bonds achieved in Europe from actions taken by the Texas commission and its financial advisor in 2004.

Q. Are market conditions in 2006 the same as 2005?

A. No. Market conditions change constantly. For example, the average 10-yr benchmark U.S. Treasury yield has averaged 5.00%, 4.59%, 4.00%, 4.26%, 4.28%, and 4.53% annually in 2001, 2002, 2003, 2004, 2005, and through March of 2006, respectively. The current rate as of May 2006 is over 5.00%, similar to 2001. Credit spreads to these benchmarks also change and no one can predict with any accuracy the conditions that will exist when the storm recovery bonds come to market.

Q. How is the standard of lowest cost and maximum ratepayer protections measured?

A. Determinations of lowest cost and the level of ratepayer protections are evaluated through a collaborative effort of transaction participants based on both quantitative and qualitative factors, respectively, including examination of similarly priced transactions, similarly rated securities, trading patterns, and investor indications of interest, among other factors. Since pricing is the culmination of a process, it is important that each element of the process be examined as it is occurring in real time. And since there is no meaningful opportunity to make a post-transaction review given the nature of the transaction, transparency and accountability during the process are essential. Thus, the Commission should oversee the transaction to

ensure that it is completed at the lowest cost to ratepayers and with maximum ratepayer protections.

Q. Have you encountered any resistance from underwriters to your recommended process for selecting and compensating bookrunners and members of the underwriting syndicate?

A. Yes, at times. Whenever innovations and changes to the business-as-usual approach toward any process are introduced, some resistance can be anticipated. There were some instances of underwriters who made it clear that our requirement for "performance-based compensation" was unacceptable to them, and they did not participate in a transaction. We were confident, however, that competition would produce better results for ratepayers, and those beliefs were later substantiated when other underwriters did step forward, accepted our terms and successfully worked with us on those deals.

Q. Have other underwriters cooperated in the pursuit of a lowest cost standard in utility securitization transactions?

A. Yes. In the recent CenterPoint transaction, there were twelve underwriters, including FPL's current advisor, CS, and the advisor to Gulf, Barclays. Each firm had to submit a response to a detailed questionnaire prepared by Saber about the potential offering.

The following is CS's response to one of our questions:

> "The firm is willing to bring all of its resources to bear in the transaction and hold its people accountable for achieving the lowest possible cost of funds.... The firm is willing to coordinate all aspects of the transaction with CenterPoint, PUCT and Saber Partners."

Barclays Capital gave the following in response to the Saber CenterPoint questionnaire:

> "Barclays will provide its marketing plan which details how our firm as Bookrunner will develop the value proposition and then market the securities to create the greatest competition for the

bonds in all market segments in order to achieve the lowest cost of funds."

Q. With respect to this proposed storm-recovery bond transaction, are you concerned that there may be insufficient interest on the part of underwriters if the FPSC adopts the use of "performance-based compensation" that Saber has recommended to other commissions?

A. No, we are not. Given the track record in prior transactions where we were able to obtain robust participation among underwriters, we have demonstrated significant benefits to ratepayers, improved the regulatory process for reviewing these unique transactions in a timely and thorough way, and at the same time provided incentives to underwriters to improve their performance and lower the costs to ratepayers while meeting the financing needs of the sponsoring utility.

Collaboration and Cooperation in the Securitization Process

Q. Can you briefly describe how Saber intends to interact with Gulf, its financial advisor, the underwriting syndicate and the FPSC and its staff in this assignment?

A. Saber is committed to meeting its obligation to minimize the net costs of doing this transaction so as to reduce/mitigate ratepayer burdens of recovering storm-recovery costs approved by the FPSC. In meeting that obligation, we hope that we can establish a collaborative and collegial working environment to assure an effective and timely sale of storm-recovery bonds at the lowest possible cost.

Saber proposes that the Commission, through staff and its financial advisor, will have oversight over the principal storm-recovery bond transaction documents including, but not limited to, the Servicing Agreement, the Administration Agreement, the LLC Agreement, the Sale Agreement, and the Indenture among others. It is possible that Saber, staff, and Gulf will

have differences of professional opinion on strategy and wording of these transaction documents. That is to be expected in a negotiating environment. In case of a stalemate on any issue, Saber proposes that Saber, staff, and Gulf will make written presentations of their views to the FPSC.

In six prior transactions, Saber relied upon "best practices" summarized in this testimony to help sell $5 billion of ratepayer-backed bonds (using numerous nationally known underwriting firms in the syndicates) at lower yields and transaction costs than similar contemporaneous transactions. I see no reason why the various participants in this transaction will not be able to work cooperatively to implement these "best practices" as part of a successful transaction.

Q. Is the length of time it takes to complete a transaction a fair measure of success in ratepayer-backed bond transactions?

A. No. The length of a transaction depends on many factors, such as the speed of the rating agencies' evaluations, efficiency of the underwriters in developing the marketing plan, whether new markets or marketing strategies are being developed, and whether the utility and/or underwriters work collaboratively with the commission and its advisors in assisting the commission in its oversight function. In some cases, ratepayer-backed bond transactions have been delayed significantly by appeals of the financing orders. In other cases, the rating agencies and securities registration processes have been the most time consuming aspects of a transaction. However, many items can be done concurrently.

Because Gulf is not responsible for the costs or charges of the transaction, and the financing order is irrevocable, Gulf and the underwriters might want to complete the transaction quickly with less than optimal effect on the pricing. Gulf and some of the underwriters also might be tempted to implement a final structure that increases storm-

recovery bond charges in return for weaker covenants, representations and warrantees than might be strongly urged by Saber and by underwriters appointed in collaboration with the Commission.

The best measure of the effectiveness of a transaction is not how fast it is completed but what the ultimate value received for ratepayers is. Was the cost as low as possible under existing market conditions, and was the liability to ratepayers minimized? Of course, in a rapidly rising interest rate environment, the speed of issuance might take a higher priority than in a stable or declining interest rate environment. However, predicting interest rates is a highly speculative endeavor. Even economists have been unable to predict interest rates reliably.

Best Practices: Recommended Procedures

Q. You have referred to the "best practice" standards for guiding the ratepayer-backed bond financing process. Can you briefly describe the approach?

A. Yes. Based on experience gained from past transaction and our professional experience and judgment, Saber has distilled from past transactions a set of concrete steps the Commission can take to ensure that the interests of ratepayers are protected through a cost-effective issuance of storm-recovery bonds. These steps represent a set of best practices. None of these steps represents a radical departure from existing practices; on the contrary, most represent best practices previously put in place by other state commissions.

The West Virginia Public Service Commission issued the most recent financing order concerning a ratepayer-backed bond (known as Environmental Control Bonds in West Virginia) and incorporated a "best practices" approach. In its financing order dated April 7, 2006 it stated:

> "The Commission has surveyed approaches used by other state commissions that have implemented utility tariff securitization, including in particular a 2004

financing order issued by the Public Service Commission of Wisconsin to finance the costs of environmental control activities, as well as financing orders issued in 2005 by the Public Utility Commission of Texas, in 2005 by the New Jersey Board of Public Utilities and in 2004 by the California Public Utilities Commission to finance other purposes. The Commission finds that these other financing orders and their implementation in many respects have included standards and procedures that are well designed to protect the interests of consumers and should be incorporated into this Financing Order.

"In this Financing Order the Commission establishes standards and procedures which the Commission finds represent best practices for the benefit of consumers while respecting legitimate interests of the Applicants. The Commission finds that these best practices standards and procedures will ensure that the imposition of Environmental Control Charges are just and reasonable, are otherwise consistent with the public interest, and constitute a prudent, reasonable and appropriate mechanism for the financing of Environmental Control Activities, as required by W. Va. Code 5 24-2-4e(d)(3)(F). These best practice standards and procedures are designed to allow for meaningful and substantive cooperation among the Applicants and the Commission to ensure that the structuring, marketing and pricing of the Environmental Control Bonds (and the associated Certificates) will result in the lowest Environmental Control Charges consistent with market conditions and the terms of this Financing Order. The Commission finds that each of these standards and procedures must be met to protect customers and to provide the targeted benefits both to customers and to the Applicants. This Financing Order grants authority to issue Environmental Control Bonds and to impose and collect Environmental Control Charges only if the final structure of the transaction and the procedures followed comply in all respects with these standards and procedures."[11]

These cost saving steps are summarized as follows.

The Commission should:

1) Participate in the selection of underwriters, counsel and other transaction participants and should define the responsibilities of each to the extent that each is to be paid from bond proceeds.[12] To assist it, the Commission should utilize experienced

[11] West Virginia PSC' 2006 Financing Order issued to The Potomac Edison Company and Monongahela Power Company (Case Nos. 05-0402-E-CN and 05-0750-E-PC), page 42.

[12] *See* West Virginia PSC' 2006 Financing Order issued to The Potomac Edison Company and Monongahela Power Company (Case Nos. 05-0402-E-CN and 05-0750-E-PC), Ordering Paragraph 19 ("The Financial Advisor shall have equal rights with the Applicants to approve or disapprove the proposed pricing, marketing and structuring of the Certificates and Environmental Control Bonds, including (without limitation) the selection of underwriter(s), counsel, trustee(s) and other parties necessary to the transaction, and to review and approve the terms of all transaction documents."); Wisconsin PSC's 2004 Financing Order issued to Wisconsin Electric Power Company (Docket 6630-ET-100), Ordering Paragraph 7 ("The Commission shall oversee all negotiations regarding the structuring, marketing, and

experts and financial advisors with a duty of loyalty and care solely to the Commission, absent any conflicts of interests with Gulf, underwriters or investors. The Commission will act by and through staff and its advisor to serve as a joint-decision maker with Gulf in all matters related to the structure, marketing and pricing of the storm-recovery bonds.

2) Carefully review and negotiate all transaction documents and contracts that could affect future ratepayer costs to ensure accuracy and compliance with all laws, rules and regulations, and provide complete and full disclosure.

3) Ensure that all statutory limits which benefit ratepayers are strictly enforced.

4) Establish procedures to ensure that all savings are transferred to ratepayers.[14]

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pricing of the environmental trust bonds and, without limitation, the selection of underwriter(s), counsel, trustee(s) and other parties necessary to the transaction and to review and approve the terms of all transaction documents.")

[14] *See* the West Virginia PSC' 2006 Financing Order issued to The Potomac Edison Company and Monongahela Power Company (Case Nos. 05-0402-E-CN and 05-0750-E-PC), Ordering Paragraph 86 ("Without limitation, other rates of each Applicant shall be adjusted to reflect . . . the amount by which the Applicant's annual servicing fee exceeds the Applicant's annual verifiable incremental cost of performing the servicing function."); California PUC's 2004 Financing Order issued to PG&E (Decision 04-11-015 November 19. 2004), pages 40 and 41 ("To the extent PG&E's incremental costs to provide this service are less than the servicing fee revenue from the Bond Trustee, PG&E will return that excess revenue to consumers through the ERBBA."); New Jersey BPU's 2005 Financing Order issued to PSE&G (BPU Docket No. EF03070532), Ordering Paragraph 22 ("However, if the Servicing Fee is greater than the actual incremental costs to service the BGS Transition Property, other rates of the Petitioner shall be adjusted to reflect the difference between actual servicing costs and the Servicing Fee."); Montana PSC's 1998 Financing Order issued to Montana Power (Docket No. D97.11.219; Order No. 6035a), pages 6 and 7 ("The full amount of the market-based servicing fee will be included in the FTA charges. However, as long as Applicant is servicer, Applicant proposes a ratemaking mechanism that will provide a credit to ratepayers equal in value to any amounts it receives as compensation, since these servicing costs will generally be included in the Applicant's overall cost of service."); California PUC's 1997 and 1998 Financing Orders issued to PG&E (Decision 97-09-055 September 3, 1997), SCE (Decision 97-09-056 September 3, 1997), SDG&E (Decision 97-09-057 September 3, 1997) and Sierra Pacific (Decision 98-10-021 June 24, 1998), page 6 ("The full amount of the market-based servicing fee will be included in the FTA charges. However, as long as PG&E is servicer, PG&E proposes a ratemaking mechanism which will provide a credit, after the rate-freeze period, to residential and small commercial ratepayers in PG&E's Rate Reduction Bonds Memorandum Account equal tin value to any amounts it receives as compensation, excepting only amounts needed to cover incremental, out-of-pocket costs and expenses incurred by PG&E to service the RRBs. These types of expenses would include required audits related to PG&E's role as servicer, and legal and accounting fees related to the servicing obligation. Thus, the only net ratemaking impact will be such incremental expenses.").

5) Require that the storm-recovery bonds be offered to the broadest market possible to garner lower interest rates for the benefit of ratepayers through increased competition among underwriters and investors.[15]

6) Require transparency and accountability in the distribution, initial pricing and in the secondary market for storm-recovery bonds to support the integrity of the process and ensure competition.

7) Direct the Commission staff and outside experts such as its financial advisor to participate fully and in advance in all aspects of structuring, marketing and pricing the storm-recovery bonds and instruct them to challenge any decision they believe would not result in the lowest all-in cost of funds to ratepayers.[16] This should include:

[15] In support of this best practice, it will be useful for the financing order to include a variety of findings, including (a) each SPE is responsible to the Commission in connection with its issuance of storm-recovery bonds; (b) storm-recovery property is not a receivable; (c) the State Pledge and the automatic true-up adjustment mechanism constitute a State of Florida guarantee of regulatory action to ensure payment of principal and interest on the storm-recovery bonds (*see e.g.*, West Virginia PSC' 2006 Financing Order issued to The Potomac Edison Company and Monongahela Power Company (Case Nos. 05-0402-E-CN and 05-0750-E-PC), Ordering Paragraph 30: ("Each SPE shall be responsible to the Commission to carry out all terms and conditions of W. Va. Code § 24-2-4e and this Financing Order."), Conclusion of Law 8: ("Environmental Control Property is not a receivable."), Conclusion of Law 9 ("The approval of this Financing Order, including the true-up provisions, by the Commission constitutes a guarantee of state regulatory action to ensure repayment of the Certificates and the Environmental Control Bonds and associated costs."); Wisconsin PSC 2004 Financing Order issued to Wisconsin Electric (Docket 6630-ET-100), Ordering Paragraph 1: "The approval of this Financing Order, including the true-up provisions, by the Commission constitutes a guarantee of state regulatory action to ensure repayment of the environmental trust bonds and associated costs."; California PUC 2004 Financing Order issued to PG&E (Decision 04-11-015 November 19, 2004), Ordering Paragraph 40: "All true-up adjustments to the DRC shall guarantee the billing of DRC charges necessary to generate the collection of amounts sufficient to make timely provision for all scheduled (or legally due) payments . . ."); and (d) if all private consumers of electricity in Gulf's service area cease to consume electricity and/or fail to pay storm-recovery charges, the automatic true-up adjustment mechanism will cause state and local governments in Gulf's service area to be payors of last resort.

[16] *See* West Virginia PSC' 2006 Financing Order issued to The Potomac Edison Company and Monongahela Power Company (Case Nos. 05-0402-E-CN and 05-0750-E-PC), Conclusion of Law 15 ("The Commission, acting through and with the assistance of the Financial Advisor, shall have the right to participate fully and in advance with the Applicants in all aspects of the structuring, marketing and pricing of the Certificates and the Environmental Control Bonds (and all parties shall be notified of Financial Advisor's role)."); Ordering Paragraph 26 of the Texas PUC's 2005 Financing Order issued to CenterPoint PUC Docket No. 30485); Ordering Paragraph 21 of the Texas PUC's 2002 Financing Order issued to Central Power & Light (Docket 21528); Ordering Paragraph 21 of the Texas PUC's 2002 Financing Order issued to TXU Electric (Docket No. 21528); Ordering Paragraph 21 of the Texas PUC's 2002 Financing Order issued to Reliant Energy (Docket No. 21665); Ordering Paragraph 17 of the New Jersey BPU's 2005 Financing Order issued to PSE&G (BPU Docket No. EF03070532); Ordering Paragraph 7 of the Wisconsin PSC's 2004 Financing Order issued to Wisconsin Electric Power Company (Docket 6630-ET-100).

a) establishing and clearly communicating goals and objectives with Gulf and potential underwriters throughout the process;

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

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

d) evaluating the performance of underwriters of prior securitized ratepayer-backed bond offerings;[17] including in any offering or bidding syndicate one or more underwriters without a prior relationship with Gulf; tying any negotiated underwriter compensation to performance;[i]

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

f) establishing a regularly scheduled (weekly) conference call between senior representatives of the issuer, other transaction participants, the

[17] *See* Ordering Paragraph 15 of the West Virginia PSC' 2006 Financing Order issued to The Potomac Edison Company and Monongahela Power Company (Case Nos. 05-0402-E-CN and 05-0750-E-PC); Ordering Paragraph 26 of the Texas PUC's 2005 Financing Order issued to CenterPoint PUC Docket No. 30485); Ordering Paragraph 21 of the Texas PUC's 2002 Financing Order issued to Central Power & Light; Ordering Paragraph 21 of the Texas PUC's 2002 Financing Order issued to TXU Electric (Docket No. 21528); Ordering Paragraph 21 of the Texas PUC's 2002 Financing Order issued to Reliant Energy (Docket No. 21665); Ordering Paragraph 17 of the New Jersey BPU's 2005 Financing Order issued to PSE&G (BPU Docket No. EF03070532); Ordering Paragraph 7 of the Wisconsin PSC's 2004 Financing Order issued to Wisconsin Electric (Docket 6630-ET-100).

Commission, and the financial advisor to update the Commission on relevant information;

g) requiring Gulf and potential underwriters or advisors to carefully monitor market conditions to minimize foreseeable pricing risks, such as year-end pressures, economic announcements, or other outside events, and to document their marketing efforts and pricing recommendations.

8) Requiring accountable certifications from the underwriter, Gulf and the Commission's financial advisor as to actions taken to achieve the lowest cost of funds at the time of pricing under then-current market conditions.[18]

9) Providing that the Commission is to have authority to enforce the provisions of the financing order, the Servicing Agreement, the Sale Agreement, the Indenture and other transaction documents for the benefit of ratepayers.[19]

Q. What is an appropriate mechanism to implement these "best practices"?

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[18] *See* West Virginia PSC' 2006 Financing Order issued to The Potomac Edison Company and Monongahela Power Company (Case Nos. 05-0402-E-CN and 05-0750-E-PC), Finding of Fact 67: ("Requiring the bookrunning underwriter(s) of the Certificates and the Environmental Control Bonds to deliver a certificate concerning the Lowest Cost Objective and other matters (the "Final Underwriter's Certification") will facilitate achievement of the Lowest Cost Objective."); Texas PUC's 2005 Financing Order issued to CenterPoint (PUC Docket No. 30485), Finding of Fact 110: "The Commission's financial advisor or designated representative shall require a certificate from the bookrunning underwriter(s) confirming that the structuring, marketing, and pricing of the transition bonds resulted in the lowest transition bond charges consistent with market conditions and the terms of this financing order." *See* also Wisconsin PSC's 2004 Financing Order issued to Wisconsin Electric Power Company (Docket 6630-ET-100), Ordering Paragraph 37: "Following determination of the final terms of each series of environmental trust bonds and prior to issuance of the environmental trust bonds, the Commission may require any certificates from the Applicant's underwriters."

[19] *See e.g.*, West Virginia PSC' 2006 Financing Order issued to The Potomac Edison Company and Monongahela Power Company (Case Nos. 05-0402-E-CN and 05-0750-E-PC), Conclusion of Law 13 ("The Commission, acting on its own behalf, has authority to enforce all provisions of this Financing Order and all provisions of the Environmental Control 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 Sale Agreement and the Transfer Agreement."); Wisconsin PSC's 2004 Financing Order issued to Wisconsin Electric Power Company (Docket 6630-ET-100), Ordering Paragraph 17 ("The Commission, acting on its own behalf or through the Attorney General, may enforce this Financing Order and related transaction documents, including those contemplated by the Affiliated Interest Final Decision, for the benefit of Wisconsin ratepayers to the extent permitted by law including, the enforcement of any ratepayer indemnification provisions in connection with specified items in the servicing agreement.")

A. There are a number of ways to implement "best practices". The key reason for these practices is for the utility and commission to work closely together. The California Commission established a formal "bond team" in its financing order with only representatives of the Commission on it to oversee and approve the transaction. Unlike California, Texas, New Jersey, and Wisconsin had more informal designations of bond teams that included representatives of the Commission staff from different divisions and their financial advisor and the utility and its divisions and external counsel. A bond team should be comprised of the key decision-making participants in the transaction, Commission staff with their financial advisors and counsel, and the utility with its advisors. This group would oversee the work of other professionals in implementing the transaction such as underwriters, deal and underwriter's counsel, trustees, etc. Led by the Commission staff or designated representative, the bond team manages the process to implement the "best practices" adopted by the Commission and other terms of the financing order to achieve an efficient, lowest cost transaction.

Financing Order Recommendations

Q. Please explain the importance of having these ratepayer protections in the transaction documents or in the financing order issued in this case.

A. In a complex legal arrangement such as a securitization, terms, conditions, representations and warrantees concerning all contracts need to be evaluated from an arms–length, dispassionate perspective. The personalities of the people involved in the transaction need to be set aside, while the risks, costs and liabilities are independently evaluated and policies are developed.

From the Commission's and ratepayers' perspective, the storm-recovery bonds are issued under an irrevocable order that cannot be changed by the Commission. Yet, the corporate structure, servicing agreement and some other critical documents submitted by Gulf

for approval could be changed after the transaction is complete in several critical areas by a simple amendment of various documents. At best, these changes will not materially affect ratepayers; at worst, these changes could be detrimental to ratepayers.

In addition, Gulf's obligations as servicer (in essence the collection agent for the SPE which provides funds to the bondholders) are under a specific contract with the SPE known as the Servicing Agreement. That contract, like any other contract for services, has certain provisions concerning performance, care, liabilities, and indemnities. All of these could affect ratepayers at any time during the life of the storm-recovery bonds. Yet the Servicing Agreement is essentially between affiliated parties with all of the liabilities associated with the agreements falling to ratepayers under the storm-recovery charge and the true-up mechanism.

Saber strongly believes regulatory oversight should be preserved concerning the transaction documents for the life of the storm-recovery bonds. With an increasing number of mergers in the electric industry, it is important for the FPSC to look beyond the next few years and put in place ratepayer protections that survive even in the case of a merger and new management. Ever-changing corporate structures require close scrutiny by the FPSC since future owners may have a different attitude about this transaction 5-10 years into the future.

Q. How can the benefits to ratepayers be maximized and extended?

A. By adopting the "best practices" procedures summarized earlier in my testimony, the Commission will be "at the table" for all negotiations affecting ratepayers in advance of any decisions affecting ratepayers. The marketing process is a critical part of the negotiating process, because it involves the direct interaction between underwriters and investors on the one hand and the issuer on the other. Because any retrospective review of the pricing would be speculative without the real time access to the information available to the underwriters and investors, the only way to protect ratepayers is to provide for Commission approval of all

future decisions affecting ratepayers before they are made final. The Commission should not make decisions based on draft language but on final terms and conditions in real time. For this to be a meaningful review and decision process, it cannot be restricted or restrained in terms of time and consideration.

Q. What specific ratepayer protections should the Commission include in the financing order for the proposed issuance of storm-recovery bonds?

A. At this time, we have not completed our final analysis of Gulf's transaction documents. But more importantly, many decisions still need to be made closer to the time of offering and after feedback from the rating agencies and others with specific market information. However, there are a number of general deficiencies that we have identified that are part of our overall recommendations for improving the Financing Order.

- Change the Servicer's standard of care from "Gross Negligence" to "Negligence."
- Require the Servicer to indemnify ratepayers for any losses resulting from the Servicer's breach.
- In case of a Servicer default, prohibit termination of the Servicing Agreement without prior FPSC approval.
- Require that any Servicer "float" benefit Florida ratepayers rather than Gulf shareholders.
- Mandate continuing disclosure to the SEC and the general public to increase liquidity for storm-recovery bonds and lower ratepayer costs.
- Include an accurate description of credit risk in marketing documents.
- Describe accurately the government's role in the transaction.

Q. What additional terms, conditions or representations should be made in the financing order to enhance the marketability of the bonds and achieve the lowest possible cost?

A. The financing order should include findings of fact, conclusions of law and ordering paragraphs that will provide complete disclosure and give appropriate comfort to investors about the high quality of storm-recovery bonds as a potential investment. Examples might include:

(1) a finding that the Commission anticipates that stress case analyses will show that the broad based nature of the automatic true-up adjustment mechanism (Section 366.8260(2)(b)2.e.) and the State pledge (Section 366.8260(11)) serve to effectively eliminate for all practical purposes and circumstances any credit risk associated with the storm-recovery bonds;

(2) a finding and an order that the automatic true-up mechanism be implemented as rapidly as following (e.g., 15 days) after a filing by Gulf as servicer;

(3) a finding and a conclusion of law that the State pledge and the automatic true-up adjustment mechanism constitute a guarantee of regulatory action for the benefit of investors in storm-recovery bonds;

(4) a conclusion of law that any interest rate swap counterparty is to be treated as a "financing party" for purposes of Section 366.8260(1)(g);

(5) a conclusion of law that storm-recovery property is not a receivable;

(6) a conclusion of law that the Commission's obligations under the financing order relating to storm-recovery bonds, including the specific actions the Commission guarantees to take, are direct, explicit, irrevocable and unconditional upon the issuance of storm-recovery bonds, and are legally enforceable against the Commission, a United States public sector entity;

(7) a conclusion of law and an order that the financing order is irrevocable;

(8) an order directing that partial payments shall be allocated first to storm-recovery charges, including any past-due storm-recovery charges; and

(9) an order directing that the automatic true-up adjustment mechanism is to be applied at least semi-annually.

In addition, the financing order should require fully accountable certifications from the lead underwriter(s), Gulf and the Commission's Financial Advisor that the structuring, marketing and pricing of the storm-recovery bonds resulted in the lowest storm-recovery charges consistent with then-current market conditions and the terms of the financing order.

Q. What aspects of Gulf's petition and proposed financing order are consistent with petitions and financing orders approved by other state commissions?

A. The general transaction structure appears to be consistent with most, but not all, other financing orders.

Q. What aspects of Gulf's petition and proposed Financing Order are unique compared to petitions considered and financing orders approved by other state commissions?

A. The most unusual aspects of Gulf's application involve the pre-issuance document review process and the issuance advice letter process as described above. To our knowledge, there is nothing similar to it in any other utility securitization transaction.

Q. Have you reviewed the procedures for Commission participation in the issuance of storm-recovery bonds after a Financing Order has been issued, set forth in Mr. Kim's testimony in Gulf's Petition for Issuance of a Storm Recovery Bond Financing Order?

A. Yes.

Q. Do you find any of those proposed procedures troubling from the perspective of protecting the interests of ratepayers?

A. Yes. The entire program seems designed to limit the ability of the Commission's staff and financial advisor to participate actively and in advance in all aspects of structuring, marketing and pricing storm-recovery bonds. In particular, the process appears to be designed to exclude the Commission's staff and financial advisor from participating in any way after 5:00 p.m. two business days before the storm-recovery bonds are to be offered for sale, including the actual pricing of storm-recovery bonds. In most transactions, this is the time when the most crucial negotiations take place, including the actual pricing of the bonds. Indeed, after the second business day before the storm-recovery bonds are issued, the process specifically contemplates a marginalized role for the Commission in which it would serve as a mere recipient of finalized documents that become effective "without further Commission action".

In addition, this pre-issuance negative check-off review process proposed by Gulf is unduly burdensome to the Commission and to ratepayers. First, the timetable that it provides for Commission review appears arbitrary and rigid. Second, it would not be able to adapt to changing market conditions so as to possibly accelerate the storm-recovery bond transaction if conditions warrant.

Q. Has this process ever been used anywhere in the U.S. capital markets or internationally?

A. No, not to our knowledge, nor has Gulf submitted any evidence that this process ever has been used elsewhere.

Q. Has a similar, limited review process been proposed in connection with ratepayer-backed bonds proposed to be issued for the benefit of utilities in any other state?

A. Yes. A similar process initially was proposed in an Application for Financing Order, Approval of Affiliated Agreements, and Related Relief filed jointly by Monongahela Power

Company and The Potomac Edison Company with the West Virginia Public Service Commission on May 24, 2005. The West Virginia Public Service Commission adopted a financing order on April 7, 2006, approving the issuance of ratepayer-backed bonds and eliminated the procedure as originally proposed which was similar to the process proposed by Gulf. In fact, the West Virginia Commission adopted the "best practices" approach to the financing proposed by Saber Partners.

In testimony given in a public hearing before the West Virginia Public Service Commission on January 18, 2006, a representative for the applicant utilities acknowledged that subsequent discussions with other parties had persuaded the applicant utilities that the originally proposed procedures were not necessary or appropriate, and the applicant utilities proposed that the West Virginia Commission, acting principally through its staff and financial advisor, be actively involved at all times and in all stages of the structuring, marketing and pricing of the proposed ratepayer-backed bonds and that there was no need for the originally proposed limiting procedures.

Q. What additional flexibility should Gulf be afforded in establishing the terms and conditions of the storm-recovery bonds, including, but not limited to, repayment schedules, interest rates, and other financing costs?

A. Principal Amortization. General parameters for the principal amortization schedule should be set forth in the financing order. If the Commission decides to approve 8-year scheduled final maturity for storm-recovery bonds, example of such general parameters might be:

(1) scheduled final maturity no shorter than 7 years and 9 months and no longer than 8 years and 3 months from the storm-recovery bond issue date,

(2) scheduled principal amortization reflecting level expected per-unit storm-recovery charges for residential customers, and

(3) legal final maturity for each tranche of storm-recovery bonds not less than one year and not longer than two years from the scheduled maturity date.

(4) scheduled principal amortization reflecting level expect per-unit storm-recovery charges for residential customers, and

Interest Rates. Given the principal amortization schedule established as summarized above, Gulf, the bookrunning underwriter and the Commission's Financial Advisor each should be required to certify that the structuring, marketing and pricing of each tranche of storm-recovery bonds in fact produced the lowest all-in cost of funds to ratepayers. If floating rate bonds are issued, there should be an interest rate swap agreement with a counterparty with a credit rating not less than [single A] from at least two national credit rating agencies that is reasonably designed to convert the floating rate to a synthetic fixed rate of interest, and the certificates delivered by Gulf, the bookrunning underwriter(s) and the Commission's Financial Advisor should confirm that the net interest costs (taking into account the interest rate swap agreement) resulted in the lowest all-in cost of funds to the ratepayers.

Interest Rates. Given the principal amortization schedule established as summarized above, Gulf, the bookrunning underwriter(s) and the Commission's Financial Advisor each should be required to certify that the structuring, marketing and pricing of each tranche of storm-recovery bonds produced the lowest all-in cost of funds to ratepayers at the time of pricing. If floating rate bonds are issued, there should be an interest rate swap agreement with a counterparty with a credit rating not less than single A from at least two national credit rating agencies that is reasonably designed to convert the floating rate to a synthetic fixed rate of interest, and the certificates delivered by Gulf, the bookrunning underwriter(s) and the Commission's Financial Advisor should confirm that the net interest costs (taking into account the interest rate swap agreement) resulted in the lowest all-in cost of funds to the ratepayers.

Up-front Financing Costs. Based on the record in this case, and to provide some incentives to Gulf, the financing order should impose caps on various categories of up-front financing costs over which Gulf has some control. Examples might include Gulf's legal fees, Gulf's financial advisor fees, underwriting fees, trustees fees and rating agency fees. The caps should be reasonable and realistic, but should be set so as to provide incentives to Gulf to work hard to hold the line of up-front costs over which it has some control. This is a common approach in financing orders issued by commissions in other states in connection with ratepayer-backed bonds.

Q. Is the company's proposed amortization schedule appropriate and in the best interests of ratepayers?

A. Not Necessarily. The proposed 8 year recovery period of the bonds (and weighted average life of 4.64 years) is shorter than is possible in the capital markets for the high quality of these ratepayer-backed bonds. Mr. Kim indicates the sole reason for this is to have an "efficient duration" solely in the ABS market and where the vast majority of competing issuances have a weighted average maturity of less than 5 years. However, this means that Gulf's relatively small issue will compete with much larger, more liquid securities where the powerful credit features of securitization bonds are less likely to be highly valued by investors. Long dated, par priced triple-A rated bonds with stable average lives and no ratings volatility are a scarce commodity in the market. Consequently, the proposed short duration might not capture the bonds' full potential benefit.

Another factor to consider at the time of offering is the yield curve which means the interest rate associated with each year of weighted average life. The yield curve is generally positively sloped. This means the longer the maturity the higher the rate. However, the current yield is not as positively sloped as is the traditional difference between short and long

maturities. While the interest rate may be slightly higher compared to a shorter maturity, the per kilowatt hour charge would be lower with a longer amortization. Whichever amortization is chosen, ratepayers should still expect the lowest cost of funds at the time of pricing for the given structure.

Q. Has Gulf done a present value analysis on structures and alternatives to assist in evaluating the best structure for ratepayers?

A. No. Mr. Kim does compare storm-recovery bonds to the weighted average cost of capital as the benchmark for savings but does not compare the cost over any period of time. His analysis does suggest that a longer amortization period and resulting lower per kilowatt hour charge would increase savings if a present value analysis were performed since it is being compared to the utility's weighted average cost of capital.

Q. How should the proper bond structure be determined?

A. This needs to be evaluated closer to the time of issuance based specifically on market conditions at the time adhering to certain principles and policies of the Commission. In other utility securitizations, the policy has been to achieve the lowest per-kilowatt hour charge to customers and the lowest cost of funds subject to a maximum maturity and a level amortization. This is another reason that the Commission needs to be actively involved in the structure, marketing and pricing of the bonds through the time of pricing.

Q. Is the company's issuance advice letter process sufficient for Commission action?

A. It is helpful but not complete. The current process provides only skeletal information and should be expanded to be consistent with processes identified in Texas and in West Virginia.

Q. What are the specific deficiencies that should be remedied in the Gulf application?

A. Through a review of other state processes, the letter should be adjusted as follows:

a) The utility's Issuance Advice Letter should include a certification from the utility and should include as an attachment a certification from the underwriter(s), in each case regarding the structuring, marketing and pricing having achieved the lowest all-in cost of funds consistent with market conditions at the time and the terms of the financing order.

b) Rounding of issuance amount to nearest million dollars is not appropriate; the issuance amount should be based upon actual amounts to the extent possible, and all estimates should be updated with the most current information including the estimated replenishment of the storm reserve.

c) The "annualized weighted average yield" should be changed to "annualized all in yield"[20]

d) A present value analysis comparing the storm-recovery bond charges with the alternative storm surcharges should be included

Comments on the Testimony of Company Financing Witnesses

Q. Have you reviewed the testimony and exhibits of Gulf's financing witnesses in this case?

A. Yes, I have.

Q. What are your reactions to their testimonies?

A. Mr. Kim does an excellent job describing the asset-backed securities market and the overall corporate bond market in general. One problem is that storm-recovery bonds do not fall precisely in that market. In fact, the characterization of storm-recovery bonds as pure "asset-backed securities" has caused the bonds to be inappropriately judged from a quality and credit perspective. This is a fundamental limiting factor in the proposed issuance process and Mr. Kim's subsequent analysis. Mr. Kim acknowledges the differences of storm recovery bonds to ABS securities in many of his descriptions thus it is likely that Barclays may be more sensitive to this issue than others.

Mr. Kim's description of the fundamental bond structure of the transaction is accurate and in keeping with rating agency policy to achieve the highest credit ratings possible. But it also indicates that there is substantial flexibility in structuring, marketing and pricing that occurs after the financing order. Mr. Kim's exhibits regarding distribution of investors appear to have been labeled in error. The percentages do not match the charts and labels and so we cannot comment on them.

The fundamental weakness in Mr. Kim's testimony (one that can be easily fixed) is that it seems to presume solely an asset-backed transaction. This would also fundamentally limit the investor base and the potential lower interest costs achievable by appealing to investors in the European, corporate and U.S. agency bond markets. Mr. Kim's testimony however leaves open the possibility of additional strategies to lower costs and Saber's experience with Barclays has been that they are very knowledgeable and committed to developing this market segment. There is no doubt that the ABS market is a starting point based on past precedent but it is not the definitive market to sell the bonds at the least cost to ratepayers. Broader competition will lead to lower costs.

In general, Mr. Kim has identified the key issues and offered his professional opinion on how to address and resolve them for the benefit of his client, Gulf. Saber has been retained to provide its professional opinion on those issues from the point of view of its ultimate client, Gulf's ratepayers.

Q. Do you have any comments on Ms. Ritenour's testimony?

A. Ms. Ritenour does not address how Gulf would structure, market or price the storm-recovery bonds so as to achieve the lowest cost of funds or provide any standard of ratepayer protection. For example, it is unlikely that Gulf would allow other bonds for which the full

[20] Annualized all in yield is defined as the cost to consumers as measured by the aggregate annualized internal rate of

economic burden for repayment would fall on Gulf and its shareholders to be structured, marketed and priced by an unrelated third party who was not responsible in any way for the burden of repayment and was fully compensated for its actions regardless of the result. In addition, Ms. Ritenour does not address the offering process to be employed.

Summary of Testimony and Recommendations to Commission

Q. Can you list your recommendations to the Commission?

A. I recommend that the Commission: (1) conform the proposed Financing Order based on application of "best practices" as outlined in this testimony, (2) approve oversight by the Commission acting by and through its staff and its financial advisor for participation in real-time on all matters related to the structuring, marketing, and pricing of the storm-recovery bonds and (3) make specific additions to the financing order to improve the marketability of the storm-recovery bonds and ensure compliance with the Commission's directives

Q. How do you expect the transaction to proceed?

A. Gulf, and its advisors, and the Commission, staff, and its advisors can work collaboratively and congenially to expeditiously complete this important transaction and establish this new financing technique for the benefit of ratepayers and the utility. We look forward to working with the transaction team.

Q. Does this conclude your testimony?

A. Yes, it does.

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return taking into account all up-front and ongoing financing costs.

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for issuance of storm recovery financing order pursuant to Section 366.8260, F.S. (2005), by Gulf Power Company.	DOCKET NO. 060154-EI DATED: MAY 9, 2006

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one correct copy of the DIRECT TESTIMONY AND EXHIBITS OF JOSEPH S. FICHERA has been served by U. S. Mail to Jeffrey A. Stone, Esq., Russell A. Badders, Esq., and Steven Griffin, Esq., Beggs & Lane Law Firm, P. O. Box 12950, Pensacola, Florida 32591-2950 on behalf of Gulf Power Company and that a true and correct copy thereof has been furnished to the following by U. S. Mail, this 9th day of May, 2006:

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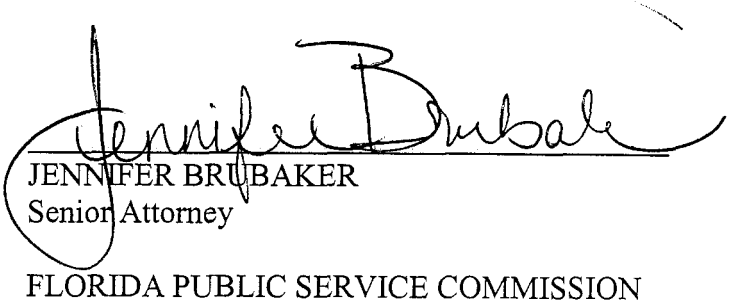

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Exhibit JSF-1. Duties of the Financial Advisor

The following is a list of duties of the Financial Advisor excerpted from the Central Power & Light Transaction (October 2002).

A. General Duties of the Financial Advisor

To ensure that the structuring and pricing of the transition bonds results in the lowest transition-bond charges consistent with market conditions and the terms of the Financing (FOF 97 and OP 21).

To ensure that the structure and pricing of the transition bonds protects the competitiveness of the retail electric market in Texas. (FOF 97 and OP 21).

To give effect to the Commission's directive that the caps in the Financing Order related to costs and maximum interest rates are ceilings, not floors (FOF 98 and OP 21).

B. Specific Duties of Financial Advisor

To notify the Commission no later than 12:00 p.m. CST after the pricing date of each series of transition bonds whether the pricing and structuring of that series of transition bonds complies with the terms and conditions of the Financing Order. (OP 21).

To veto any proposal that does not comply with all the terms and conditions of the Financing Order. (OP 21).

To participate in negotiations regarding the pricing and structuring of the transition bonds. (OP 21).

To decide whether to use credit enhancements. (OP 17).

To determine whether it is prudent to enter into hedging and swap agreements to mitigate risk of future rate increases. (FOF 99(h)).

To inform the Commission of any cost items that, in the Financial Advisor's opinion, are not reasonable. (OP 21).

C. General Authority of the Financial Advisor

Authority to participate fully and in advance in all aspects of the pricing, marketing and structuring of the transition bonds including all plans and decisions related to the pricing, marketing and structuring of the transition bonds. (FOF 98 and OP 21).

Equal rights with the utility to approve or disapprove the proposed pricing, marketing and structuring of transition bonds. (OP 21).

Decision making authority co-equal with the utility with respect to the structuring and pricing of the transition bonds. (FOF 97). Thus, all matters relating to the structuring and pricing of the transition bonds must be decided jointly by the utility and the Commission's Financial Advisor. (FOF 97).

The right to receive timely information as necessary to fulfill its obligation to advise the Commission.

Exhibit JSF-2. Usage of Utility Fee Securitization

The following table presents a complete list of utility fee bond transactions, including date, issue, state, credit ratings at issuance, size and purpose. Thirty-seven (37) transactions have been completed to date for a total of over $36 billion, with six (6) more transactions pending to the best of our knowledge for an additional $3.6 billion. Saber-advised transactions are highlighted in grey, including those for which Saber has been chosen as an advisor for 2006.

#	Date	Transaction	State	Ratings	Size ($mm)	Purpose
1	8-Jun-95	Puget Power, Ser. 1995-1	Washington	Aaa/AAA/AAA	202.3	Demand Side Management
2	1997	Puget Power, Ser. 1997	Washington	Aaa/AAA/AAA	35.2	Demand Side Management
3	25-Nov-97	PG&E, Ser. 1997-1	California	Aaa/AAA/AAA	2,901.0	Stranded Costs
4	3-Dec-97	SCE, Ser. 1997-1	California	Aaa/AAA/AAA	2,463.0	Stranded Costs
5	4-Dec-97	SDG&E, Ser. 1997-1	California	Aaa/AAA/AAA	658.0	Stranded Costs
6	1-Dec-98	MPC, Ser. 1998	Montana	Aaa/AAA/AAA	62.7	Stranded Costs
7	4-Dec-98	ComEd, Ser. 1998	Illinois	Aaa/AAA/AAA	3,400.0	Stranded Costs
8	10-Dec-98	Illinois Power, Ser. 1998-1	Illinois	Aaa/AAA/AAA	864.0	Stranded Costs
9	18-Mar-99	PECO, Series 1999-A	Pennsylvania	Aaa/AAA/AAA	4,000.0	Stranded Costs
10	1-Apr-99	Sierra Pacific	California	Aaa/AAA	24.0	Stranded Costs
11	26-Jul-99	Boston Edison	Massachusetts	Aaa/AAA/AAA	725.0	Stranded Costs
12	29-Jul-99	PP&L, Ser. 1999-1	Pennsylvania	Aaa/AAA/AAA	2,420.0	Stranded Costs
13	3-Nov-99	West Penn Power, Ser. 1999-A	Pennsylvania	Aaa/AAA/AAA	600.0	Stranded Costs
14	28-Apr-00	PECO, Ser. 2000-A	Pennsylvania	Aaa/AAA/AAA	1,000.0	Stranded Costs
15	25-Jan-01	PSE&G, Ser. 2001-1	New Jersey	Aaa/AAA/AAA	2,525.0	Stranded Costs
16	15-Feb-01	PECO, Ser. 2001-A	Pennsylvania	Aaa/AAA/AAA	805.5	Stranded Costs
17	2-Mar-01	Detroit Edison, Ser. 2001-1	Michigan	Aaa/AAA/AAA	1,750.0	Stranded Costs
18	27-Mar-01	CL&P, Ser. 2001-1	Connecticut	Aaa/AAA/AAA	1,438.4	Stranded Costs
19	20-Apr-01	PSNH, Ser. 2001-1	New Hampshire	Aaa/AAA/AAA	525.0	Stranded Costs
20	14-May-01	WMECO, Ser. 2001-1	Massachusetts	Aaa/AAA/AAA	155.0	Stranded Costs
21	17-Oct-01	CenterPoint Energy, Ser. 2001-1	Texas	Aaa/AAA/AAA	748.9	Stranded Costs
22	31-Oct-01	Consumers Funding, Ser. 2001-1	Michigan	Aaa/AAA/AAA	468.6	Stranded Costs
23	16-Jan-02	PSNH, Ser. 2002-1	New Hampshire	Aaa/AAA/AAA	50.0	Stranded Costs
24	31-Jan-02	CPL, Ser. 2002-1	Texas	Aaa/AAA/AAA	797.3	Stranded Costs
25	4-Jun-02	JCP&L, Ser. 2002-1	New Jersey	Aaa/AAA/AAA	320.0	Stranded Costs
26	11-Dec-02	Atlantic City Electric, Ser. 2002-1	New Jersey	Aaa/AAA/AAA	440.0	Stranded Costs
27	14-Aug-03	Oncor Electric, Ser. 2003-1	Texas	Aaa/AAA/AAA	500.0	Stranded Costs
28	18-Dec-03	Atlantic City Electric, Ser. 2003-1	New Jersey	Aaa/AAA/AAA	152.0	Stranded Costs
29	28-May-04	Oncor/TXU Electric, Ser. 2004-1	Texas	Aaa/AAA/AAA	789.8	Stranded Costs
30	28-Jul-04	Rockland Electric	New Jersey	Aaa/AAA/AAA	46.3	Deferred Cost Balances
31	1-Jan-04	State of Connecticut	Connecticut	Aaa/AAA/AAA	205.3	Stranded Costs
32	3-Feb-05	PG&E, Ser. 2005-1	California	Aaa/AAA/AAA	1,887.9	Refinance Regulatory Asset
33	15-Feb-05	Mass. Special Purpose RRB Trust	Massachusetts	Aaa/AAA	674.5	PPC Contract Buydown
34	9-Sep-05	PSE&G, Ser. 2005-1	New Jersey	Aaa/AAA/AAA	102.7	Deferred Cost Balances
35	23-Sep-05	West Penn Power, Ser. 2005-A	Pennsylvania	Aaa/AAA/AAA	115.0	Stranded Costs
36	3-Nov-05	PG&E, Ser. 2005-2	California	Aaa/AAA/AAA	844.5	Refinance Regulatory Asset
37	9-Dec-05	CenterPoint Energy, Ser. 2005-A	Texas	Aaa/AAA/AAA	1,851.0	Stranded Costs
38	Pending	AEP	Texas	Pending	1,300.0	Stranded Costs
39	Pending	Allegheny Power	West Virginia	Pending	381.0	Enviromental Control
40	Pending	Florida Power & Light	Florida	Pending	1,050.0	Storm Recovery
41	Pending	Gulf Power	Florida	Pending	150.0	Storm Recovery
42	Pending	JCP&L	New Jersey	Pending	300.0	Stranded Costs
43	Pending	Wisconsin Electric Power	Wisconsin	Pending	450.0	Enviromental Control
				Total	**$ 40,178.8**	

Source: SEC documents, proposal requests and Fitch report *Utility Tariff Monetization Bond Performance Review,* August 22, 2005. Amounts for 2006 subject to change.

Exhibit JSF-3. Relative Value in Practice

On December 9, 2005, the CenterPoint Energy Transition Bond Company II LLC issued $1.85 billion in ratepayer-backed bonds for the recovery of stranded costs. Saber Partners, LLC advised the Texas Public Utility Commission on the transaction. The securities received AAA/AAA/Aaa credit ratings from Fitch, Moody's and Standard & Poor's[1], respectively.

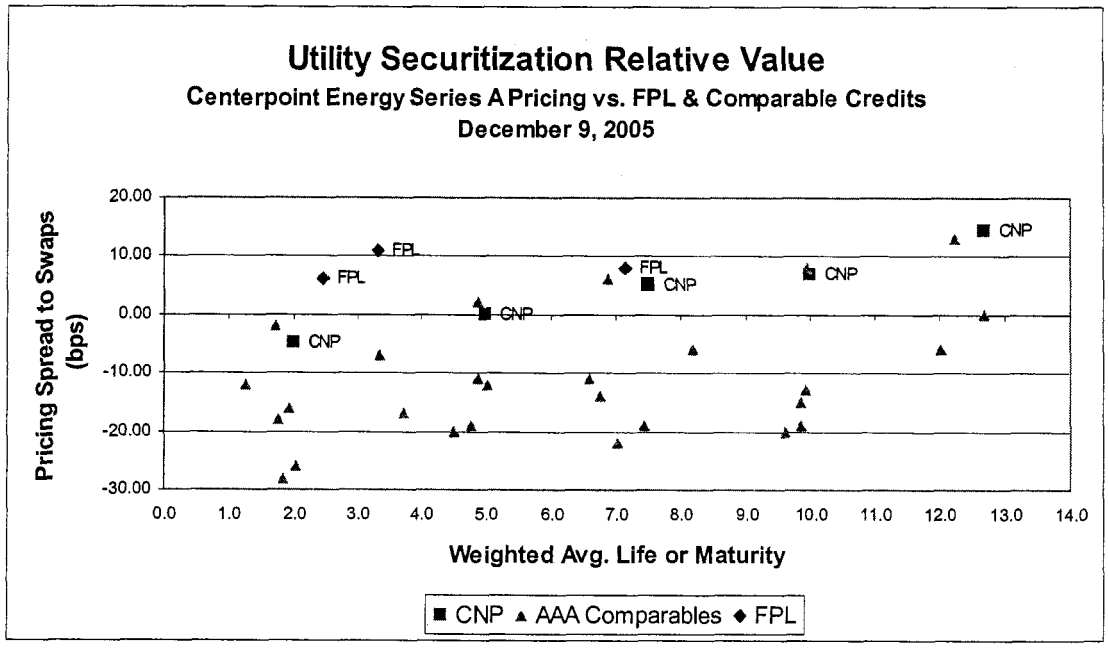
The graph on the following page provides a comparison of the underwriters' selected market comparable transactions at the time of the CenterPoint transaction[2]. The CenterPoint transaction priced at record low spread to benchmark levels compared to all other utility securitization bonds, something that Texas bonds had achieved for 4 consecutive years on 4 separate transactions advised by Saber Partners.

Yet, as can be seen from the data, the CenterPoint transaction priced at or near the top of the range of comparable credit transactions despite receiving identical credit ratings. The Centerpoint bonds were priced only 3 to 11 basis points below comparable maturity FPL first mortgage bonds rated Aa3/A. While the CenterPoint bonds were at or below rates on top tier ABS credit card bond rates, differences of as much as 24 basis points existed with other AAA bond rates in the market demonstrating significant savings still to be achieved. This valuation/information/education gap is reduced through more pro-active marketing, increased education of potential investors and market makers on relative value analysis and the broadening of investor appeal in the US and foreign markets. This in turn promotes greater

[1] From rating agency pre-sale reports. Fitch report dated November 8, 2005; Standard & Poor's report dated December 5, 2005; Moody's report dated December 6, 2005.
[2] Lehman Brothers, CSFB and RBS Greenwich Capital. *CenterPoint Energy Senior Secured Transition Bonds Series A Pricing Book.* January 13, 2006. Included transactions rated similarly by credit agencies.

competition among investors and market makers which can lead to narrowing the valuation gap and therefore ratepayer costs.

Pricing of CenterPoint Energy Series A transition bonds vs. FPL and comparable credits[3].



[3] Explanation of Swap Spread (Vertical Axis): When debt instruments are priced, they are usually priced relative to the rate for a benchmark security, that is to say a security that is highly liquid and whose price in the market is readily available. Traditional utility debt, for example, is priced relative to the yield on US Treasury securities. For example, a utility bond might be priced at Treasuries + 50 basis points (.5%). Most securitization debt is priced relative to interest rate swap yields. An interest rate swap is a transaction wherein two parties agree to swap a stream of fixed rate interest payments for a stream of variable rate payments on a certain principal amount. Various financial services will quote on a real time basis the fixed swap rate over the yield curve from 2 to 15 years. The bonds are then priced relative to a point on the curve corresponding to the weighted average life of the bonds.

The table below presents the data used in the graph[4] on the previous page.

Issuer	Tranche	Coupon	Maturity	WAL	Swap Spread
Centerpoint Energy Transition Bond Co.	A-1	4.840%		2.0	-4.75
Centerpoint Energy Transition Bond Co.	A-2	4.970%		5.0	0.00
Centerpoint Energy Transition Bond Co.	A-3	5.090%		7.5	5.00
Centerpoint Energy Transition Bond Co.	A-4	5.170%		10.0	7.00
Centerpoint Energy Transition Bond Co.	A-5	5.302%		12.7	14.38
Florida Power & Light		6.000%	6/1/2008	2.5	6.00
Florida Power & Light		5.875%	4/1/2009	3.3	11.00
Florida Power & Light		4.850%	2/1/2013	7.1	8.00
Freddie Mac		4.375%	11/16/2007	1.9	-16.00
Fannie Mae		4.250%	9/15/2007	1.8	-18.00
European Investment Bank		3.125%	10/15/2007	1.9	-28.00
KFW International Finance		3.250%	12/20/2007	2.0	-26.00
Pfizer		2.500%	3/15/2007	1.3	-12.00
Citigroup Cr. Cards		3.200%	8/24/2007	1.7	-2.00
Freddie Mac		4.125%	10/18/2010	4.9	-11.00
Fannie Mae		4.750%	12/15/2010	5.0	-12.00
European Investment Bank		4.125%	9/15/2010	4.8	-19.00
KFW International Finance		4.250%	6/15/2010	4.5	-20.00
Pfizer		5.625%	4/15/2009	3.4	-7.00
Johnson & Johnson		6.625%	9/1/2009	3.7	-17.00
Citigroup Cr. Cards		4.750%	10/20/2010	4.9	2.00
Freddie Mac		5.125%	7/15/2012	6.6	-11.00
Fannie Mae		4.375%	9/15/2012	6.8	-14.00
KFW International Finance		4.625%	12/14/2012	7.0	-22.00
Pfizer		4.500%	2/15/2014	8.2	-6.00
Johnson & Johnson		3.800%	5/15/2013	7.4	-19.00
Citigroup Cr. Cards		4.140%	10/22/2012	6.9	6.00
Freddie Mac		4.750%	11/17/2015	9.9	-13.00
Fannie Mae		4.375%	10/15/2015	9.9	-15.00
European Investment Bank		4.625%	10/20/2015	9.9	-19.00
KFW International Finance		4.375%	7/21/2015	9.6	-20.00
Pfizer		4.500%	2/15/2014	8.2	-6.00
Johnson & Johnson		3.800%	5/15/2013	7.4	-19.00
Citigroup Cr. Cards		5.100%	11/20/2015	9.9	8.00
TVA		6.250%	12/15/2017	12.0	-6.00
Federal Home Loan Bank		5.375%	8/15/2018	12.7	0.00
Pfizer		4.650%	3/1/2018	12.2	13.00

[4] *Source:* Lehman Brothers, CSFB and RBS Greenwich Capital. *CenterPoint Energy Senior Secured Transition Bonds Series A Pricing Book.* January 13, 2006. Included transactions rated similarly by credit agencies.

Exhibit JSF-4. The Benefits of 20% Risk Weighting

The attached document, authored by Saber Partners, describes the benefits to European investors that a 20% risk weighting provides. These benefits will result in greater demand and hence lower cost for ratepayer-backed bonds.

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The Economic Impact of Risk Weighting on Banks' Investment Returns

When a U.S. or European bank investor purchases a bond, its investment is subject to a "risk weighting" system. Under that system, banks are required to apply assigned risk weights to the principal amount of their investments to calculate their "total risk-weighted assets," against which they must maintain 8% capital. For example, a 100% risk weighting would mean the bank would be required to hold risk based capital ("RBC", which is generally raised as equity or subordinated debt) equal to 8.0% of the value of the bond. Alternatively, a 20% risk weighting would require the bank to maintain RBC equal to just 1.6% (20% x 8.0%) of the value of the bond.

Bank investors evaluate investment alternatives on the basis of the RBC required for each investment and the return each yields on the required RBC. Differences in risk weighting thus have real economic impact and can greatly affect investors' decisions. In particular, specific investments become more or less attractive to investors in certain countries depending on whether those investors' countries assign them a more- or less-favorable risk weighting.

For example, in the U.S., all 'AAA' rated and 'AA' rated asset-backed securities are assessed a 20% risk weighting. By contrast, a 20% risk weighting generally applies to investments by European banks in U.S. securities only if those securities are issued or guaranteed by the U.S. government or U.S. "public sector entities" (such as state and municipal governments). In general, European bank investments in all other U.S. bonds are assessed a 100% risk weighting.

This difference in risk weighting treatment represents a real economic cost for European banks, and has led them to shy away from investing in U.S. bonds other than taxable municipal bonds and certain other bonds having yields sufficient to make up for the economic cost of increased capital requirements (see below).

Because 100% risk weighting requires the bank to maintain five times the RBC, the yield over funding and hedging costs that a potential 100%-weighted investment offers must effectively be five times that of a similar investment subject only to 20% risk weighting if the bank is to earn a comparable return on its RBC.

Illustrative Example:

Assume that a European investor buys a $100 bond with a maturity of 10 years, yielding 20 basis points (bps) over the 10-year swaps rate (in practice, many banks measure asset returns on the basis of the asset's spread over the swap curve, using (a) LIBOR as an estimate of their marginal cost of funds and (b) the swap spread as an estimate of their marginal cost of hedging duration risk).

SABER PARTNERS, LLC

I) 20% Risk Weighting

*Investment must be supported by RBC equal to: 20% * 8.0% = 1.60%*

Yield over funding and hedging cost:	0.20%	
RBC required	1.60%	
Return on risk-based capital (Yield/RBC)		*12.50%*

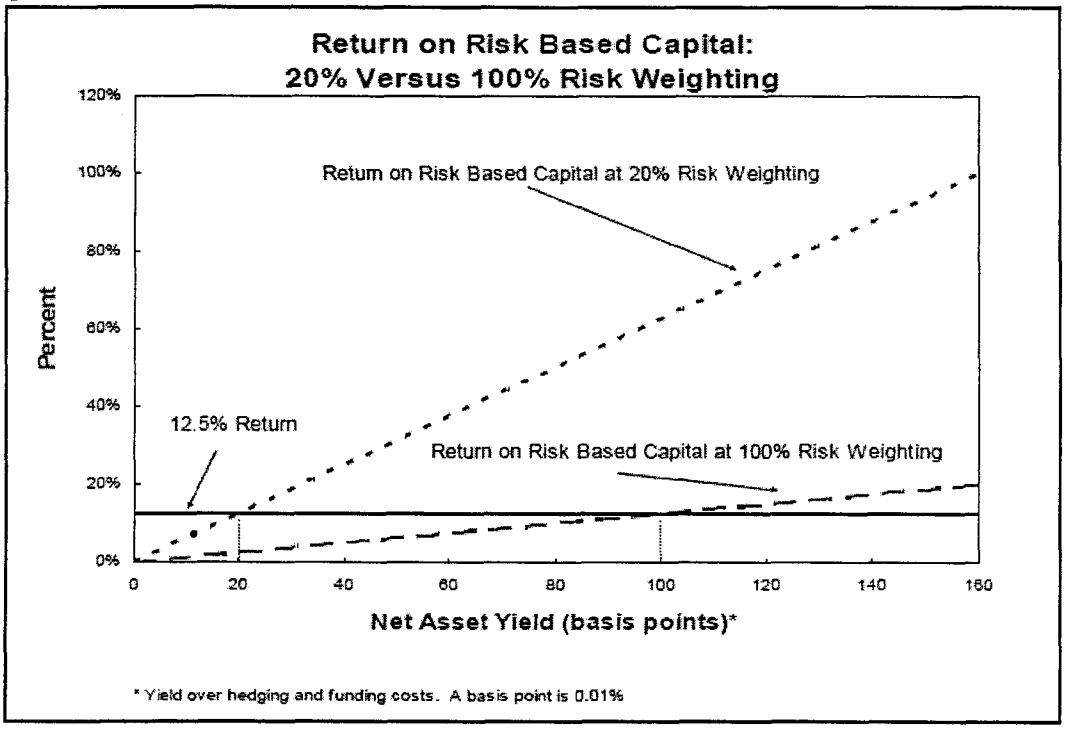
In contrast, an asset subject to 100% risk weighting would need to yield 100 bps over the costs of funding and hedging to produce the same return on RBC:

II) 100% Risk Weighting

*Investment must be supported by RBC equal to: 100% * 8.0% = 8.0%*

Yield over funding and hedging cost:	1.00%	
RBC required	8.00%	
Return on risk-based capital (Yield/RBC)		*12.50%*

To put this in perspective, under current market conditions (January 2004) a 10-year AAA-rated U.S. asset-backed security yields approximately 4.70% (20 bps over the 10-year swap curve). Accordingly, on this analysis, a U.S. bank investing in such a security would earn a 12.5% return on its RBC. By contrast, a U.K. bank could not earn an equivalent return on its RBC unless the security yielded approximately 5.5% (100 bps over the 10-year swap curve). Instead, the European Bank investor would earn only a 2.50% return on its RBC at the assumed asset yield of 4.70%.



While a more refined analysis (taking into account bank-specific costs and charges, for example) might reduce this difference, the preceding example illustrates that there is a sizable disparity between bank returns stemming just from differential risk weighting treatment. For this reason, European bank investors historically have generally only purchased higher-yielding (and presumably riskier) asset-backed securities in the U.S market.

Even where U.S. securities have qualified for a 20% risk weighting, such as in the U.S. municipal securities market, the gross (*i.e.*, pre-tax) yields offered have generally been too low to be attractive to European investors. U.S. municipals have until recently been primarily non-taxable. While these low yielding non-taxable municipals have been attractive to US investors on a tax-adjusted basis, they have not been as attractive to foreign investors, who are unable to realize any tax benefit . Indeed, only since larger, taxable municipal transactions have recently been issued in the United States have European investors shown significant interest.

The first significant participation by European investor accounts in the U.S. taxable muni market was in June 2003 - *State of Illinois' $10 Billion Multi-Tranche General Obligation Bonds - Pension Funding Series*. This was the largest municipal bond offering ever, approximately 27% of which was sold to European investors. These investors primarily participate in 'public sector' (*i.e.*, 20% risk-weighted) transactions.

Benefit of a 20% Risk Weighting for Texas Transition Bonds

There should thus be a real benefit for Texas Transition Bonds from achieving a 20% risk weighting in Europe. Clearly, the example above shows a sizable economic benefit to purchasing 20% risk-weighted assets relative to 100% risk-weighted assets. Although in the past there has been some interest from European accounts in U.S. asset-backed securities despite their 100% risk weighting, that interest was largely a function of higher yields offered on those specific securities, which made the all-in yield (including the cost of maintaining 100% risk capital) attractive relative to available alternatives. It is difficult to quantify precisely the benefit that could be achieved on a spread basis. Nevertheless, increasing the interest of European accounts in Texas Transition Bonds will increase the overall universe of investors, which would, in turn, increase demand for and potentially improve the pricing of those bonds. But unless Texas Transition Bonds receive a 20% risk weighting, new European interest, sufficient to realize tighter pricing than has been achieved in past Texas transactions is unlikely to materialize.

Exhibit JSF-5. Citigroup Texas Transition Bonds Savings Study

In late 2003, Citigroup performed an independent, internal study to compare the pricing performance of Saber Partners advised ratepayer-backed bond transactions versus those not advised by Saber Partners. Citigroup concluded that the "difference in total savings (from Saber-advised transactions) vs. other transition bonds" amounted to approximately $18 million on a net present value basis.

The following pages present the study in detail, as provided to Saber Partners by Citigroup.

X-Original-To: jfichera@saberpartners.com

Delivered-To: jfichera@saberpartners.com

Subject: TX savings summary (revised)

Date: Fri, 19 Sep 2003 17:44:00 -0400

X-MS-Has-Attach: yes

X-MS-TNEF-Correlator:

Thread-Topic: condensed tx summary

Thread-Index: AcN+zmsexn2mV2xHRPiWg+ijmPYVMAAFJHRgAAMMvGAAAZ4J8A==

From: "Donskaya, Marina [FI]" <marina.donskaya@citigroup.com>

To: "Joseph Fichera (E-mail)" <jfichera@saberpartners.com>

Cc: "Humphrey, Paul G [FI]" <paul.g.humphrey@citigroup.com>,

"Hiller, Howard L [FI]" <howard.l.hiller@citigroup.com>,

"Mclaughlin, Ish [FI]" <ish.mclaughlin@citigroup.com>,

"Lou, Wendy [FI]" <wendy.lou@citigroup.com>

X-Scanned-By: MIMEDefang 2.36

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

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

Joe,

As discussed, we've revised our analysis to use actual coupons (instead of implied coupons) as a discount rate. I also wanted to note that we used average life (instead of duration) when calculating

savings per year. Finally, we included both savings against other RRBs and against credit cards in the attached file (both including and excluding WMECO and PSNH).

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

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

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

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

CPL: $12,951,663 or 20.3 bps/yr (nominal), $9,748,976 or 15.3 bps/yr (PV)

Oncor: $6,629,694 or 19.4 bps/yr (nominal), $5,278,669 or 15.4 bps/yr (PV)

Total: 23,355,132 (nominal), 17,982,941 (PV)

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

Reliant: $2,009,392 or 10.8 bps/yr (nominal), $1,717,547 or 9.2 bps/yr (PV)

CPL: $5,167,226 or 13.2 bps/yr (nominal), $4,133,597 or 10.6 bps/yr (PV)

Oncor: $2,018,929 or 10.9 bps/yr (nominal), $1,725,982 or 9.3 bps/yr (PV)

Total: 9,195,546 (nominal), 7,577,127 (PV)

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

Attached is an updated version of our analysis.

Please let us know if you have any additional questions.

Thank you.

Marina Donskaya, CFA

Associate

Asset Backed Finance

Citigroup Global Markets Inc.

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Tabs from Citigroup Spreadsheet

Tab 1: Summary

Reliant

	Amount (in MM)	WAL	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV	Vs. CC Spread Differential[1] Nominal	Vs. CC Spread Differential[1] PV
A1	115.00	2.71	$93,434.51	$87,051.59	$218,013.85	$203,120.39
A2	118.00	5.39	$550,673.49	$479,878.49	$856,603.21	$746,477.65
A3	130.00	7.19	$747,819.79	$614,359.56	$934,774.74	$767,949.45
A4	385.90	10.29	2,381,847.26	$1,774,005.84	NA	NA
Total	748.90	7.80	$3,773,775.05	$2,955,295.48		
$ Savings per year:			$483,812.88	$378,880.56		

CP&L

	Amount (in MM)	WAL	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV	Vs. CC Spread Differential[1] Nominal	Vs. CC Spread Differential[1] PV
A1	128.95	1.90	297,435.44	$297,022.66	$223,076.58	$215,266.99
A2	154.51	4.70	1,109,556.19	$993,018.42	$729,971.18	$653,301.58
A3	107.09	7.25	$1,241,870.88	$1,032,507.52	$776,169.30	$645,317.20
A4	214.93	10.00	$4,082,635.27	$3,110,906.57	$3,438,008.65	$2,619,711.13
A5	191.86	13.00	6,220,165.30	$4,325,520.62	NA	NA
Total	797.33	8.02	$12,951,663.08	$9,748,976.19		
$ Savings per year:			$1,615,830.34	$1,216,267.78		

Oncor

	Amount (in MM)	WAL	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV	Vs. CC Spread Differential[1] Nominal	Vs. CC Spread Differential[1] PV
A1	103.00	2.00	$247,108.47	$239,226.15	$144,146.51	$139,548.59
A2	122.00	5.00	$1,158,120.15	$1,035,695.99	$731,444.30	$654,123.79
A3	130.00	8.00	$1,455,157.29	$1,186,576.28	$1,143,337.87	$932,309.94
A4	145.00	10.83	$3,769,308.37	$2,817,170.86	NA	NA
Total	500.00	6.85	$6,629,694.28	$5,276,669.28		
$ Savings per year:			$967,457.29	$770,305.03		

	Vs. RRB Spreads to Swaps Nominal	Vs. RRB Spreads to Swaps PV
Weighted Average $ Savings	**$8,047,873.13**	**$6,170,236.68**
Weighted Average $ Savings per Year	**$1,043,088.32**	**$800,821.64**

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

Tab 2: Savings Analysis

Spreads Savings Analysis [1][2][3][4]

2-3 Year Tranche

Transaction	Tranche	Average Life	Window	Spread to CC	Spread to Swaps
PSE&G Transition Funding	A-2	2.90	33	7.20	16.00
Atlantic City Electric 2002-1	A-1	3.00	60	10.00	18.00
Consumers Funding 2001-1	A-2	3.00	39	21.00	35.00
Jersey Central Power and Light 2002-1	A-1	3.00	60	10.00	14.00
Connecticut Light and Power 2001-1	A-2	3.16	24	5.76	16.00
Detroit Edison 2001-1	A-2	3.21	24	7.69	17.00
				10.27	19.00

Transaction	Tranche	Average Life	Window	Spread to CC	Spread to Swaps	Spread to CC Differential	Spread to Swaps Differential
Reliant Energy 2001-1	A-1	2.71	42	3.29	16.00	-6.98	-3.00
Central Power and Light 2002-1	A-1	1.9	30	1	7.00	-9.27	-12.00
Oncor Electric Delivery Transition Bond 2003-1	A-1	2	36	3	7.00	-7.27	-12.00

4-6 Year Tranche

Transaction	Tranche	Average Life	Window	Spread to CC	Spread to Swaps
PSE&G Transition Funding	A-3	4.88	15	9.18	21.00
Consumers Funding 2001-1	A-3	5.00	15	19.00	36.00
PSNH Funding LLC 2001-1	A-2	5.00	66	11.00	25.00
Connecticut Light and Power 2001-1	A-4	5.16	24	7.52	21.00
Detroit Edison 2001-1	A-3	5.79	36	14.00	28.00
				12.14	26.20

Transaction	Tranche	Average Life	Window	Spread to CC	Spread to Swaps	Spread to CC Differential	Spread to Swaps Differential
Reliant Energy 2001-1	A-2	5.29	30	-1.58	17.00	-13.72	-9.20
Central Power and Light 2002-1	A-2	4.7	36	2.3	11.00	-9.84	-15.20
Oncor Electric Delivery Transition Bond 2003-1	A-2	5	36	0	7.00	-12.14	-19.20

7-8 Year Tranche [3][5]

Transaction	Tranche	Average Life	Window	Spread to CC	Spread to Swaps
Atlantic City Electric 2002-1	A-2	7.00	36	-2.00	28.00
Consumers Funding 2001-1	A-4	7.00	39	18.00	40.00
Jersey Central Power and Light 2002-1	A-2	7.00	36	12.00	27.00
PSE&G Transition Funding	A-4	7.00	36	7.22	27.22
Connecticut Light and Power 2001-1	A-3	7.02	21	10.85	29.90
				9.21	30.42

Transaction	Tranche	Average Life	Window	Spread to CC	Spread to Swaps	Spread to CC Differential	Spread to Swaps Differential
Reliant Energy 2001-1	A-3	7.19	30	-0.51	22.00	-9.72	-8.42
Central Power and Light 2002-1	A-3	7.3	24	-0.80	14.00	-10.01	-16.42
Oncor Electric Delivery Transition Bond 2003-1	A-3	8	36	-1.33	16.00	-10.55	-14.42

9-10 Year Tranche [3]

Transaction	Tranche	Average Life		Spread to CC	Spread to Swaps
Detroit Edison 2001-1	A-4	8.79	36	18.23	40.00
Connecticut Light and Power 2001-1	A-5	8.89	24	14.59	38.00
Peco Energy 2001-A	A-1	9.25	12	17.00	41.00
PSE&G Transition Funding	A-5	9.38	21	15.24	40.00
Consumers Funding 2001-1	A-5	10.00	39	25.00	55.00
Jersey Central Power and Light 2002-1	A-3	10.00	42	11.00	33.00
PSNH Funding LLC 2001-1	A-3	10.00	54	22.00	47.00
Atlantic City Electric 2002-1	A-3	10.50	54		44.00
				17.58	42.50

Transaction	Tranche	Average Life	Window	Spread to CC	Spread to Swaps	Spread to CC Differential	Spread to Swaps Differential
Reliant Energy 2001-1	A-4	10.29	54		37.00		-5.50
Central Power and Light 2002-1	A-4	10	42	2	24.00	-15.58	-18.50
Oncor Electric Delivery Transition Bond 2003-1	A-4	10.83	30		19.00		-23.50

11-15 Year Tranche [3]

Transaction	Tranche	Average Life	Window	Spread to CC	Spread to Swaps
Detroit Edison 2001-1	A-5	11.27	24		54.00
PSE&G Transition Funding	A-6	11.39	27		50.00
Consumers Funding 2001-1	A-6	12.85	33		65.00
PSE&G Transition Funding	A-7	12.99	12		60.00
Detroit Edison 2001-1	A-6	13.27	24		67.00
Jersey Central Power and Light 2002-1	A-4	13.4	45		43.00
PSE&G Transition Funding	A-8	14.27	18		70.00
Atlantic City Electric 2002-1	A-4	15.4	78		65.00
					59.25

Transaction	Tranche	Average Life	Window	Spread to CC	Spread to Swaps	Spread to CC Differential	Spread to Swaps Differential
Central Power and Light 2002-1	A-5	13	30		34.00		-25.25

(1) Includes floating rate notes; swapped to fixed pricing.
(2) Excludes WMECO given unusually wide window of 141 months.
(3) Excludes PSNH 2002-1 given the small size of deal and wide window of 69 months.
(4) Spread to CC is the spread between actual pricing and representative premier credit cards of the same average life on the week of pricing.

Tab 3: Deal Information

Pacific Gas and Electric — 11/25/1997

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy)	CC Diff. (Swaps)
A-1	125.0	Aaa/AAA	0.96	EDSF		9	5.918	5.0	5.446	52.2			0.0	
A-2	228.0	Aaa/AAA	1.89	EDSF		12	6.001	5.0	5.492	55.9			0.0	
A-3	250.0	Aaa/AAA	1.98	Treasuries		15	6.060	10.3	5.703	46.0	40.00		6.0	
A-4	300.0	Aaa/AAA	3.01	Treasuries		15	6.127	9.6	5.745	46.0	42.06		3.9	
A-5	290.0	Aaa/AAA	4.02	Treasuries		15	6.156	9.9	5.777	46.0	47.61		0.4	
A-6	375.0	Aaa/AAA	5.17	Treasuries		18	6.193	10.8	5.809	56.0	53.34		4.7	
A-7	866.0	Aaa/AAA	7.31	Treasuries		39	6.246	17.9	5.825	60.0	57.30		2.7	
A-8	400.0	Aaa/AAA	9.48	Treasuries		18	6.265	18.6	5.841	65.0	62.79		0.2	
	$2,969.0		5.19											

Southern California Edison — 12/3/1997

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy)	CC Diff. (Swaps)
A-1	246.0	Aaa/AAA	0.79	3 month LIBOR	4.0	12	6.009	4.3	5.484	50.8			0.0	
A-2	307.0	Aaa/AAA	1.78	Treasuries		15	6.065	7.1	5.695	45.0			0.0	
A-3	248.0	Aaa/AAA	2.83	Treasuries		12	6.114	8.7	5.782	46.0	38.9		6.1	
A-4	246.0	Aaa/AAA	3.93	Treasuries		12	6.152	8.8	5.784	46.0	43.7		2.4	
A-5	361.0	Aaa/AAA	5.17	Treasuries		18	6.187	15.4	5.821	54.0	49.3		4.7	
A-6	740.0	Aaa/AAA	7.40	Treasuries		36	6.237	15.8	5.815	58.0	53.1		4.9	
A-7	315.0	Aaa/AAA	9.54	Treasuries		15	6.273	14.5	5.829	58.0	56.8		0.2	
	$2,463.0		5.19											

San Diego Gas & Electric — 12/4/1997

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy)	CC Diff. (Swaps)
A-1	65.8	Aaa/AAA	0.77	3 month LIBOR	4.0	12	6.006	2.2	5.448	58.4			0.0	
A-2	82.8	Aaa/AAA	1.78	Treasuries		15	6.046	1.9	5.655	41.0			0.0	
A-3	86.2	Aaa/AAA	2.82	Treasuries		12	6.106	3.7	5.726	41.0	38.9		2.1	
A-4	65.7	Aaa/AAA	3.82	Treasuries		12	6.140	4.8	5.757	43.0	43.6		-0.6	
A-5	96.5	Aaa/AAA	5.15	Treasuries		18	6.171	10.6	5.781	49.0	49.2		-0.2	
A-6	197.6	Aaa/AAA	7.29	Treasuries		36	6.224	12.3	5.808	54.0	52.8		1.2	
A-7	83.5	Aaa/AAA	9.52	Treasuries		15	6.273	12.1	5.833	56.0	58.7		-2.7	
	$657.9		5.14											

Commonwealth Edison 1998-1 — 12/1/1998

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy)	CC Diff. (Swaps)
A-1	428.6	Aaa/AAA	0.88	3 month LIBOR	45.0	12	5.919	47.5	4.487	110.7			0.0	
A-2	423.4	Aaa/AAA	2.04	Treasuries		15	5.929	72.0	4.448	80.0	62.2		17.8	
A-3	258.3	Aaa/AAA	3.04	Treasuries		9	5.960	68.0	4.428	85.0	67.3		17.7	
A-4	420.7	Aaa/AAA	4.04	Treasuries		15	6.154	65.9	4.453	85.0	74.8		11.2	
A-5	586.7	Aaa/AAA	5.54	Treasuries		21	6.236	7.0	4.427	90.0	84.2		5.8	
A-6	751.3	Aaa/AAA	7.54	Treasuries		27	6.344	15.8	4.552	100.0	92.7		7.3	
A-7	510.0	Aaa/AAA	9.41	Treasuries		18	6.459	25.2	4.561	110.0	102.1		8.0	
	$3,490.0		5.17											

Illinois Power 1998-1 — 12/10/1998

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy)	CC Diff. (Swaps)
A-1	110.0	Aaa/AAA	0.79	EDSF		15	5.006	46.0	4.480	86.8			0.0	
A-2	100.0	Aaa/AAA	1.79	Treasuries		15	4.965	23.4	4.388	80.8			0.0	
A-3	80.0	Aaa/AAA	2.83	Treasuries		15	5.023	18.2	4.385	85.0	66.7		18.4	
A-4	65.0	Aaa/AAA	3.80	Treasuries		15	5.076	12.6	4.341	85.0	73.0		15.0	
A-5	175.0	Aaa/AAA	5.17	Treasuries		27	5.135	7.8	4.323	89.0	80.4		8.6	
A-6	175.0	Aaa/AAA	7.40	Treasuries		27	5.250	15.8	4.418	90.0	87.0		12.0	
A-7	139.0	Aaa/AAA	9.54	Treasuries		21	5.385	24.4	4.528	109.0	97.7		11.3	
	$964.0		5.05											

Peco Energy 1998-A — 3/18/1999

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy)	CC Diff. (Swaps)
A-1	244.5	Aaa/AAA	1.30	EDSF		24	5.353	16.0	4.772	71.9			0.0	
A-2	275.4	Aaa/AAA	3.27	Treasuries		24	5.364	1.8	4.982	58.0	55.3		3.7	
A-3	847.0	Aaa/AAA	4.04	3 month LIBOR	17.0	36	5.616	8.3	5.014	60.5	61.8		7.7	
A-4	456.5	Aaa/AAA	5.38	Treasuries		24	5.694	0.0	5.025	67.0	69.2		-2.3	
A-5	464.8	Aaa/AAA	6.29	3 month LIBOR	23.0	42	5.741	14.8	5.042	64.7	67.4		17.3	
A-6	855.4	Aaa/AAA	7.26	Treasuries		24	5.791	8.9	5.051	60.0	68.4		11.6	
A-7	896.7	Aaa/AAA	8.82	Treasuries		18	5.856	16.5	5.092	65.0	82.6		10.4	
	$4,000.1		5.13											

Boston Edison — 7/22/1999

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy)	CC Diff. (Swaps)
A-1	106.5	Aaa/AAA	1.09	3 month LIBOR	20.0	12	5.769	2.6	5.022	77.3			0.0	
A-2	170.6	Aaa/AAA	3.13	Treasuries		24	6.250	10.5	5.556	80.0	79.3		0.7	
A-3	103.4	Aaa/AAA	5.13	Treasuries		12	6.441	5.4	5.845	85.0	97.8		-12.8	
A-4	170.8	Aaa/AAA	7.13	Treasuries		24	6.574	9.5	5.933	97.0	95.9		1.1	
A-5	171.6	Aaa/AAA	9.63	Treasuries		24	6.704	21.3	5.767	125.0	112.5		12.5	
	$725.0		5.59											

Tab 3: Deal Information (continued)

PP&L 1999-1

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	293.0	Aaa/AAA	1.00	EDSF		18	5.853	23.0	5.674	100.9			0.0	
A-2	176.0	Aaa/AAA	2.00	Treasuries		12	6.217	21.8	5.823	85.0	75.0		8.0	
A-3	303.0	Aaa/AAA	3.00	Treasuries		18	6.369	13.8	5.657	68.0	78.0		10.0	
A-4	201.0	Aaa/AAA	4.00	Treasuries		12	6.508	13.2	5.710	80.0	85.0		5.0	
A-5	313.0	Aaa/AAA	5.00	Treasuries		18	6.586	17.6	5.784	100.0	98.0		2.0	
A-6	223.0	Aaa/AAA	6.00	Treasuries		12	6.656	16.0	5.786	103.0	94.5		8.5	
A-7	455.0	Aaa/AAA	7.22	Treasuries		21	6.733	12.8	5.811	105.0	94.5		8.5	
A-8	456.0	Aaa/AAA	8.75	Treasuries		21	6.803	24.2	5.845	120.0	106.7		13.3	
	$2,430.0		5.17				6.550	25.00	5.768	124.19	95.15	2.00	6.69	0.00

West Penn Power 1999-A

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	74.0	Aaa/AAA	1.00	EDSF		18	6.129	33.0	5.417	94.2			0.0	
A-2	172.0	Aaa/AAA	3.00	Treasuries		33	6.464	20.8	5.842	85.0	67.0		18.0	
A-3	196.0	Aaa/AAA	5.50	Treasuries		36	6.666	10.1	5.948	82.0	77.5		4.5	
A-4	158.0	Aaa/AAA	7.60	Treasuries		24	6.782	9.0	5.982	89.0	78.5		10.5	
	$600.0		4.85											

Pace Energy 2000-A

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	110.0	Aaa/AAA	1.11	EDSF		12	7.105	8.0	6.183	99.1				0.0
A-2	140.0	Aaa/AAA	3.06	Treasuries		12	7.259	7.6	6.635	75.0		4.1		3.6
A-3	386.8	Aaa/AAA	6.74	Treasuries		18	7.422	33.8	6.332	144.0		14.3		19.5
A-4	351.2	Aaa/AAA	8.33	Treasuries		6	7.426	31.7	6.256	146.0		15.1		16.6
	$1,000.0		7.16											

PSE&G Transition Funding

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	105.2	Aaa/AAA	1.00	EDSF		12	5.367	42.5	4.867	92.5				0.0
A-2	369.0	Aaa/AAA	2.90	Swaps		33	5.617	56.0	4.735	106.2		8.8		7.2
A-3	182.6	Aaa/AAA	4.86	Swaps		15	5.841	71.0	4.823	112.8		11.8		8.2
A-4	488.8	Aaa/AAA	7.69	3 month LIBOR	30.0	39	6.002	77.2	5.098	120.8		20.0		7.2
A-5	328.0	Aaa/AAA	8.36	Swaps		21	6.126	69.0	5.232	120.4		24.8		15.3
A-6	462.6	Aaa/AAA	11.39	Swaps		27	6.176	69.0	5.288	137.7				0.0
A-7	219.7	Aaa/AAA	12.89	Swaps		12	6.197	69.0	5.326	147.0				0.0
A-8	370.3	Aaa/AAA	14.27	Swaps		18	6.213	70.0	5.348	156.5			0.0	0.0
	$2,525.0		8.66											

Pace Energy 2001-A

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	825.5	Aaa/AAA	9.25	Swaps		12	6.130	41.0	5.188	137.2		24.0		17.0

Detroit Edison 2001-1

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	124.5	Aaa/AAA	1.49	EDSF		24	5.009	14.0	4.478	89.1				0.0
A-2	179.0	Aaa/AAA	3.21	Swaps		24	5.315	17.0	4.570	91.5		9.5		7.7
A-3	322.8	Aaa/AAA	5.79	Swaps		36	5.605	28.0	4.735	113.2		14.0		14.0
A-4	406.7	Aaa/AAA	8.79	Swaps		36	5.792	42.0	4.895	130.3		21.0		18.3
A-5	326.3	Aaa/AAA	11.37	Swaps		24	5.872	44.0	4.971	144.1				0.0
A-6	390.7	Aaa/AAA	13.27	Swaps		24	5.903	47.0	5.014	155.9				0.0
	$1,750.0		8.61											

Connecticut Light and Power 2001-1

Tranche	Amount	Rating	WAL	Benchmark		Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	224.9	Aaa/AAA	1.19	EDSF		21	4.791	13.0	4.294	84.7				0.0
A-2	255.1	Aaa/AAA	3.16	Swaps		24	5.240	46.0	4.537	88.3		10.2		5.8
A-3	282.4	Aaa/AAA	5.16	Swaps		24	5.556	51.0	4.684	100.4		13.5		7.5
A-4	287.9	Aaa/AAA	7.62	3 month LIBOR	31.0	21	5.745	59.9	4.822	124.2		19.0		10.9
A-5	378.2	Aaa/AAA	8.85	Swaps		24	5.860	61.0	4.851	132.5		23.4		14.6
	$1,438.4		5.54											

Tab 3: Deal Information (continued)

PSNH Funding LLC 2001-1 — 4/30/2001

Tranche	Amount	Rating	WAL	Benchmark	Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	75.2	Aaa/AAA	1.10	EDSF	21	4.443	23.0	3.592	73.1				0.0
A-2	244.8	Aaa/AAA	5.00	Swaps	56	5.565	25.0	4.790	102.5		14.0		11.0
A-3	238.1	Aaa/AAA	10.00	Swaps	54	6.056	47.0	5.272	129.4		25.0		22.0
	$625.0		6.66			5.751	39.53	5.08	118.68	0.01	21.04	0.00	18.52

Western Massachusetts Electric 2001-1 — 5/14/2001

Tranche	Amount	Rating	WAL	Benchmark	Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	125.0	Aaa/AAA	6.90	Swaps	141	5.973	83.0	5.124	144.9		17.7		42.3

Reliant Energy 2001-1 — 10/17/2001

Tranche	Amount	Rating	WAL	Benchmark	Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	115.0	Aaa/AAA	2.71	Swaps	42	3.870	16.0	3.011	91.9		12.7	0.0	3.3
A-2	118.0	Aaa/AAA	5.29	Swaps	50	4.584	17.0	3.839	91.8		18.6	0.0	-1.6
A-3	130.0	Aaa/AAA	7.19	Swaps	50	4.948	22.0	4.135	103.2		22.5	0.0	-0.5
A-4	385.9	Aaa/AAA	16.29	Swaps	54	5.260	37.0	4.564	104.5			0.0	0.0
	$748.9		7.80			5.013	31.34	4.35	104.73	0.03	6.26	0.00	-0.07

Consumers Funding 2001-1 — 10/31/2001

Tranche	Amount	Rating	WAL	Benchmark	Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	26.0	Aaa/AAA	1.00	EDSF	12	2.268	30.0	1.968	58.3				0.0
A-2	84.0	Aaa/AAA	3.00	Swaps	39	3.468	33.0	2.786	100.2		12.0		21.0
A-3	31.0	Aaa/AAA	5.00	Swaps	15	4.215	36.0	3.515	108.0		17.0		19.0
A-4	85.0	Aaa/AAA	7.00	Swaps	38	4.611	43.0	3.818	118.2		22.0		18.0
A-5	117.0	Aaa/AAA	10.00	Swaps	38	4.951	55.0	4.276	120.5		33.0		25.0
A-6	115.8	Aaa/AAA	12.85	Swaps	33	5.015	65.0	4.385	130.1				0.0
	$458.8		8.01										

PSNH Funding LLC 2002-1 — 1/16/2002

Tranche	Amount	Rating	WAL	Benchmark	Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	50.0	Aaa/AAA	3.50	Swaps	69	4.220	45.0	3.462	121.0		10.0		35.0

Central Power and Light 2002-1 — 1/31/2002

Tranche	Amount	Rating	WAL	Benchmark	Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	129.0	Aaa/AAA	1.90	EDSF	30	3.458	7.0	3.585	46.3		6.00		1.0
A-2	154.5	Aaa/AAA	4.70	Swaps	38	4.942	11.0	4.247	80.4		8.7		2.3
A-3	107.1	Aaa/AAA	7.25	Swaps	24	5.463	14.0	4.674	82.9		14.6		-0.6
A-4	214.9	Aaa/AAA	10.00	Swaps	42	5.747	24.0	5.031	95.8		22.0		2.0
A-5	191.8	Aaa/AAA	13.00	Swaps	30	5.807	34.0	5.081	105.6				0.0
	$797.3		6.02										

Jersey Central Power and Light 2002-1 — 8/5/2002

Tranche	Amount	Rating	WAL	Benchmark	Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	91.1	Aaa/AAA	3.00	Swaps	60	4.103	14.0	3.531	71.3		4.0		10.0
A-2	52.3	Aaa/AAA	7.00	Swaps	36	5.182	27.0	4.651	85.1		15.0		12.0
A-3	77.1	Aaa/AAA	10.00	Swaps	42	5.555	35.0	5.044	86.1		24.0		11.0
A-4	99.5	Aaa/AAA	13.40	Swaps	45	5.654	43.0	5.147	85.7				8.0
	$320.0		8.57										

Atlantic City Electric 2002-1 — 12/11/2002

Tranche	Amount	Rating	WAL	Benchmark	Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	108.0	Aaa/AAA	3.00	Swaps	60	3.714	16.0	3.214	66.0		6.0		10.0
A-2	86.0	Aaa/AAA	7.00	Swaps	36	3.948	28.0	3.387	64.1		30.0		-2.0
A-3	118.0	Aaa/AAA	10.50	Swaps	54	4.425	44.0	4.013	69.2				0.0
A-4	147.0	Aaa/AAA	15.46	Swaps	75	4.661	65.0	4.326	106.5				0.0
	$440.0		9.75										

Oncor Electric Delivery Transition Bond 2003-1 — 6/14/2003

Tranche	Amount	Rating	WAL	Benchmark	Window	Swap Yield	Spread to Swaps	Treasury Yield	Spread to Treasuries	CC Spreads to Treasuries	CC Spreads to Swaps	CC Diff. (Tsy.)	CC Diff. (Swaps)
A-1	103.0	Aaa/AAA	2.00	EDSF	36	2.190	7.0	1.859	40.1		4.0		3.0
A-2	122.0	Aaa/AAA	5.00	Swaps	36	3.946	7.0	3.451	58.5		7.0		0.0
A-3	130.0	Aaa/AAA	8.00	Swaps	36	4.746	16.0	4.133	77.4		17.3		-1.3
A-4	145.0	Aaa/AAA	10.83	Swaps	30	5.146	19.0	4.822	71.4				0.0
	$500.0		6.35										

Tab 4: Oncor vs. CC

		A1	A2	A3	A4
PV of Interest Savings		$139,548.59	$654,123.79	$932,309.94	$0.00
Nominal Interest Savings		$144,146.61	$731,444.30	$1,143,337.87	$0.00
Original Coupon		2.2600%	4.0300%	4.9500%	5.4200%
		A1	A2	A3	A4
		Interest Savings	Interest Savings	Interest Savings	Interest Savings
0	08/21/03				
1	02/15/04	34,848.33	70,760.00	69,116.67	-
2	08/15/04	33,357.21	73,200.00	71,500.00	-
3	02/15/05	28,159.87	73,200.00	71,500.00	-
4	08/15/05	20,979.78	73,200.00	71,500.00	-
5	02/15/06	15,643.70	73,200.00	71,500.00	-
6	08/15/06	8,315.82	73,200.00	71,500.00	-
7	02/15/07	2,841.90	73,200.00	71,500.00	-
8	08/15/07	-	65,271.95	71,500.00	-
9	02/15/08	-	55,563.42	71,500.00	-
10	08/15/08	-	42,271.66	71,500.00	-
11	02/15/09	-	32,149.17	71,500.00	-
12	08/15/09	-	18,416.73	71,500.00	-
13	02/15/10	-	7,811.38	71,500.00	-
14	08/15/10	-	-	65,626.96	-
15	02/15/11	-	-	55,416.43	-
16	08/15/11	-	-	41,836.99	-
17	02/15/12	-	-	31,038.98	-
18	08/15/12	-	-	16,860.08	-
19	02/15/13	-	-	5,441.76	-
20	08/15/13	-	-	-	-
21	02/15/14	-	-	-	-
22	08/15/14	-	-	-	-
23	02/15/15	-	-	-	-
24	08/15/15	-	-	-	-
25	02/15/16	-	-	-	-

Tab 4: Oncor vs. CC (continued)

	Original Coupon	2.2600%	4.0300%	4.9500%	5.4200%
		A1	A2	A3	A4
		Interest	Interest	Interest	Interest
0	08/21/03				
1	02/15/04	1,125,103.33	2,376,356.67	3,110,250.00	3,798,516.67
2	08/15/04	1,076,961.25	2,458,300.00	3,217,500.00	3,929,500.00
3	02/15/05	909,161.40	2,458,300.00	3,217,500.00	3,929,500.00
4	08/15/05	677,347.19	2,458,300.00	3,217,500.00	3,929,500.00
5	02/15/06	505,068.11	2,458,300.00	3,217,500.00	3,929,500.00
6	08/15/06	268,482.26	2,458,300.00	3,217,500.00	3,929,500.00
7	02/15/07	91,752.69	2,458,300.00	3,217,500.00	3,929,500.00
8	08/15/07	-	2,192,049.57	3,217,500.00	3,929,500.00
9	02/15/08	-	1,866,004.71	3,217,500.00	3,929,500.00
10	08/15/08	-	1,419,623.26	3,217,500.00	3,929,500.00
11	02/15/09	-	1,079,676.31	3,217,500.00	3,929,500.00
12	08/15/09	-	618,495.08	3,217,500.00	3,929,500.00
13	02/15/10	-	262,332.25	3,217,500.00	3,929,500.00
14	08/15/10	-	-	2,953,213.07	3,929,500.00
15	02/15/11	-	-	2,493,739.29	3,929,500.00
16	08/15/11	-	-	1,882,664.64	3,929,500.00
17	02/15/12	-	-	1,396,754.12	3,929,500.00
18	08/15/12	-	-	758,703.83	3,929,500.00
19	02/15/13	-	-	244,879.32	3,929,500.00
20	08/15/13	-	-	-	3,468,115.97
21	02/15/14	-	-	-	2,872,174.42
22	08/15/14	-	-	-	2,107,354.67
23	02/15/15	-	-	-	1,474,448.24
24	08/15/15	-	-	-	671,937.45
25	02/15/16	-	-	-	-

Tab 4: Oncor vs. CC (continued)

	New Coupon	2.3300%	4.1500%	5.0600%	5.4200%
		A1	**A2**	**A3**	**A4**
		Interest	**Interest**	**Interest**	**Interest**
0	08/21/03				
1	02/15/04	1,159,951.67	2,447,116.67	3,179,366.67	3,798,516.67
2	08/15/04	1,110,318.45	2,531,500.00	3,289,000.00	3,929,500.00
3	02/15/05	937,321.27	2,531,500.00	3,289,000.00	3,929,500.00
4	08/15/05	698,326.97	2,531,500.00	3,289,000.00	3,929,500.00
5	02/15/06	520,711.81	2,531,500.00	3,289,000.00	3,929,500.00
6	08/15/06	276,798.08	2,531,500.00	3,289,000.00	3,929,500.00
7	02/15/07	94,594.59	2,531,500.00	3,289,000.00	3,929,500.00
8	08/15/07	-	2,257,321.51	3,289,000.00	3,929,500.00
9	02/15/08	-	1,921,568.13	3,289,000.00	3,929,500.00
10	08/15/08	-	1,461,894.92	3,289,000.00	3,929,500.00
11	02/15/09	-	1,111,825.48	3,289,000.00	3,929,500.00
12	08/15/09	-	636,911.81	3,289,000.00	3,929,500.00
13	02/15/10	-	270,143.63	3,289,000.00	3,929,500.00
14	08/15/10	-	-	3,018,840.02	3,929,500.00
15	02/15/11	-	-	2,549,155.72	3,929,500.00
16	08/15/11	-	-	1,924,501.63	3,929,500.00
17	02/15/12	-	-	1,427,793.10	3,929,500.00
18	08/15/12	-	-	775,563.91	3,929,500.00
19	02/15/13	-	-	250,321.08	3,929,500.00
20	08/15/13	-	-	-	3,468,115.97
21	02/15/14	-	-	-	2,872,174.42
22	08/15/14	-	-	-	2,107,354.67
23	02/15/15	-	-	-	1,474,448.24
24	08/15/15	-	-	-	671,937.45
25	02/15/16	-	-	-	-

Tab 5: Oncor vs. RRB

	A1	A2	A3	A4	Total
PV of Interest Savings	$239,226.15	$1,035,695.99	$1,186,576.28	$2,817,170.86	$5,278,669.28
Nominal Interest Savings	$247,108.47	$1,158,120.15	$1,455,157.29	$3,769,308.37	$6,629,694.28
Original Coupon	2.2600%	4.0300%	4.9500%	5.4200%	

		A1	A2	A3	A4
		Interest Savings	Interest Savings	Interest Savings	Interest Savings
0	08/21/03				
1	02/15/04	59,740.00	112,036.67	87,966.67	168,200.00
2	08/15/04	57,183.78	115,900.00	91,000.00	174,000.00
3	02/15/05	48,274.06	115,900.00	91,000.00	174,000.00
4	08/15/05	35,965.34	115,900.00	91,000.00	174,000.00
5	02/15/06	26,817.78	115,900.00	91,000.00	174,000.00
6	08/15/06	14,255.70	115,900.00	91,000.00	174,000.00
7	02/15/07	4,871.82	115,900.00	91,000.00	174,000.00
8	08/15/07	-	103,347.25	91,000.00	174,000.00
9	02/15/08	-	87,975.41	91,000.00	174,000.00
10	08/15/08	-	66,930.13	91,000.00	174,000.00
11	02/15/09	-	50,902.85	91,000.00	174,000.00
12	08/15/09	-	29,159.82	91,000.00	174,000.00
13	02/15/10	-	12,368.02	91,000.00	174,000.00
14	08/15/10	-	-	83,525.22	174,000.00
15	02/15/11	-	-	70,530.00	174,000.00
16	08/15/11	-	-	53,247.08	174,000.00
17	02/15/12	-	-	39,504.16	174,000.00
18	08/15/12	-	-	21,458.29	174,000.00
19	02/15/13	-	-	6,925.88	174,000.00
20	08/15/13	-	-	-	153,569.71
21	02/15/14	-	-	-	127,181.16
22	08/15/14	-	-	-	93,314.60
23	02/15/15	-	-	-	65,289.22
24	08/15/15	-	-	-	29,753.69
25	02/15/16	-	-	-	-

Tab 5: Oncor vs. RRB (continued)

	Original Coupon	2.2600%	4.0300%	4.9500%	5.4200%
		A1	A2	A3	A4
		Interest	Interest	Interest	Interest
0	08/21/03				
1	02/15/04	1,125,103.33	2,376,356.67	3,110,250.00	3,798,516.67
2	08/15/04	1,076,961.25	2,458,300.00	3,217,500.00	3,929,500.00
3	02/15/05	909,161.40	2,458,300.00	3,217,500.00	3,929,500.00
4	08/15/05	677,347.19	2,458,300.00	3,217,500.00	3,929,500.00
5	02/15/06	505,068.11	2,458,300.00	3,217,500.00	3,929,500.00
6	08/15/06	268,482.26	2,458,300.00	3,217,500.00	3,929,500.00
7	02/15/07	91,752.69	2,458,300.00	3,217,500.00	3,929,500.00
8	08/15/07	-	2,192,049.57	3,217,500.00	3,929,500.00
9	02/15/08	-	1,866,004.71	3,217,500.00	3,929,500.00
10	08/15/08	-	1,419,623.26	3,217,500.00	3,929,500.00
11	02/15/09	-	1,079,676.31	3,217,500.00	3,929,500.00
12	08/15/09	-	618,495.08	3,217,500.00	3,929,500.00
13	02/15/10	-	262,332.25	3,217,500.00	3,929,500.00
14	08/15/10	-	-	2,953,213.07	3,929,500.00
15	02/15/11	-	-	2,493,739.29	3,929,500.00
16	08/15/11	-	-	1,882,664.64	3,929,500.00
17	02/15/12	-	-	1,396,754.12	3,929,500.00
18	08/15/12	-	-	758,703.83	3,929,500.00
19	02/15/13	-	-	244,879.32	3,929,500.00
20	08/15/13	-	-	-	3,468,115.97
21	02/15/14	-	-	-	2,872,174.42
22	08/15/14	-	-	-	2,107,354.67
23	02/15/15	-	-	-	1,474,448.24
24	08/15/15	-	-	-	671,937.45
25	02/15/16	-	-	-	-

Tab 5: Oncor vs. RRB (continued)

	New Coupon	2.3800%	4.2200%	5.0900%	5.6600%
		A1	A2	A3	A4
		Interest	Interest	Interest	Interest
0	08/21/03				
1	02/15/04	1,184,843.33	2,488,393.33	3,198,216.67	3,966,716.67
2	08/15/04	1,134,145.03	2,574,200.00	3,308,500.00	4,103,500.00
3	02/15/05	957,435.46	2,574,200.00	3,308,500.00	4,103,500.00
4	08/15/05	713,312.53	2,574,200.00	3,308,500.00	4,103,500.00
5	02/15/06	531,885.89	2,574,200.00	3,308,500.00	4,103,500.00
6	08/15/06	282,737.95	2,574,200.00	3,308,500.00	4,103,500.00
7	02/15/07	96,624.51	2,574,200.00	3,308,500.00	4,103,500.00
8	08/15/07	-	2,295,396.82	3,308,500.00	4,103,500.00
9	02/15/08	-	1,953,980.12	3,308,500.00	4,103,500.00
10	08/15/08	-	1,486,553.38	3,308,500.00	4,103,500.00
11	02/15/09	-	1,130,579.17	3,308,500.00	4,103,500.00
12	08/15/09	-	647,654.90	3,308,500.00	4,103,500.00
13	02/15/10	-	274,700.27	3,308,500.00	4,103,500.00
14	08/15/10	-	-	3,036,738.28	4,103,500.00
15	02/15/11	-	-	2,564,269.29	4,103,500.00
16	08/15/11	-	-	1,935,911.72	4,103,500.00
17	02/15/12	-	-	1,436,258.28	4,103,500.00
18	08/15/12	-	-	780,162.12	4,103,500.00
19	02/15/13	-	-	251,805.20	4,103,500.00
20	08/15/13	-	-	-	3,621,685.68
21	02/15/14	-	-	-	2,999,355.58
22	08/15/14	-	-	-	2,200,669.27
23	02/15/15	-	-	-	1,539,737.46
24	08/15/15	-	-	-	701,691.14
25	02/15/16	-	-	-	-

Tab 6: Reliant vs. CC

		A1	A2	A3	A4
PV of Interest Savings		$203,120.39	$746,477.65	$767,949.45	$0.00
Nominal Interest Savings		$218,013.85	$856,603.21	$934,774.74	$0.00
Original Coupon		3.8400%	4.7600%	5.1600%	5.6300%
		A1	A2	A3	A4
		Interest Savings	Interest Savings	Interest Savings	Interest Savings
0	10/24/01				
1	03/15/02	31,529.17	64,703.33	50,916.67	-
2	09/15/02	40,250.00	82,600.00	65,000.00	-
3	03/15/03	35,663.01	82,600.00	65,000.00	-
4	09/15/03	33,435.04	82,600.00	65,000.00	-
5	03/15/04	29,110.16	82,600.00	65,000.00	-
6	09/15/04	24,208.63	82,600.00	65,000.00	-
7	03/15/05	14,693.89	82,600.00	65,000.00	-
8	09/15/05	9,123.97	82,600.00	65,000.00	-
9	03/15/06	-	79,223.54	65,000.00	-
10	09/15/06	-	66,301.32	65,000.00	-
11	03/15/07	-	41,217.01	65,000.00	-
12	09/15/07	-	26,958.01	65,000.00	-
13	03/15/08	-	-	64,484.84	-
14	09/15/08	-	-	53,345.00	-
15	03/15/09	-	-	31,720.60	-
16	09/15/09	-	-	19,307.63	-
17	03/15/10	-	-	-	-
18	09/15/10	-	-	-	-
19	03/15/11	-	-	-	-
20	09/15/11	-	-	-	-
21	03/15/12	-	-	-	-
22	09/15/12	-	-	-	-
23	03/15/13	-	-	-	-
24	09/15/13	-	-	-	-
25	03/15/14	-	-	-	-

Tab 6: Reliant vs. CC (continued)

	Original Coupon	3.8400%	4.7600%	5.1600%	5.6300%
		A1	A2	A3	A4
		Interest	Interest	Interest	Interest
0	10/24/01				
1	03/15/02	1,729,600.00	2,199,913.33	2,627,300.00	8,509,350.43
2	09/15/02	2,208,000.00	2,808,400.00	3,354,000.00	10,863,000.55
3	03/15/03	1,956,370.60	2,808,400.00	3,354,000.00	10,863,000.55
4	09/15/03	1,834,150.62	2,808,400.00	3,354,000.00	10,863,000.55
5	03/15/04	1,596,900.04	2,808,400.00	3,354,000.00	10,863,000.55
6	09/15/04	1,328,016.06	2,808,400.00	3,354,000.00	10,863,000.55
7	03/15/05	806,064.81	2,808,400.00	3,354,000.00	10,863,000.55
8	09/15/05	500,514.82	2,808,400.00	3,354,000.00	10,863,000.55
9	03/15/06	-	2,693,600.20	3,354,000.00	10,863,000.55
10	09/15/06	-	2,254,244.80	3,354,000.00	10,863,000.55
11	03/15/07	-	1,401,378.41	3,354,000.00	10,863,000.55
12	09/15/07	-	916,572.44	3,354,000.00	10,863,000.55
13	03/15/08	-	-	3,327,417.90	10,863,000.55
14	09/15/08	-	-	2,752,602.00	10,863,000.55
15	03/15/09	-	-	1,636,782.93	10,863,000.55
16	09/15/09	-	-	996,273.79	10,863,000.55
17	03/15/10	-	-	-	10,593,428.86
18	09/15/10	-	-	-	9,822,901.82
19	03/15/11	-	-	-	8,327,172.91
20	09/15/11	-	-	-	7,484,968.99
21	03/15/12	-	-	-	5,850,102.49
22	09/15/12	-	-	-	4,900,383.16
23	03/15/13	-	-	-	3,056,810.30
24	09/15/13	-	-	-	2,006,540.56
25	03/15/14	-	-	-	-

Tab 6: Reliant vs. CC (continued)

	New Coupon	3.9100%	4.9000%	5.2600%	5.6300%
		A1	A2	A3	A4
		Interest	Interest	Interest	Interest
0	10/24/01				
1	03/15/02	1,761,129.17	2,264,616.67	2,678,216.67	8,509,350.43
2	09/15/02	2,248,250.00	2,891,000.00	3,419,000.00	10,863,000.55
3	03/15/03	1,992,033.60	2,891,000.00	3,419,000.00	10,863,000.55
4	09/15/03	1,867,585.65	2,891,000.00	3,419,000.00	10,863,000.55
5	03/15/04	1,626,010.20	2,891,000.00	3,419,000.00	10,863,000.55
6	09/15/04	1,352,224.68	2,891,000.00	3,419,000.00	10,863,000.55
7	03/15/05	820,758.70	2,891,000.00	3,419,000.00	10,863,000.55
8	09/15/05	509,638.78	2,891,000.00	3,419,000.00	10,863,000.55
9	03/15/06	-	2,772,823.74	3,419,000.00	10,863,000.55
10	09/15/06	-	2,320,546.12	3,419,000.00	10,863,000.55
11	03/15/07	-	1,442,595.43	3,419,000.00	10,863,000.55
12	09/15/07	-	943,530.45	3,419,000.00	10,863,000.55
13	03/15/08	-	-	3,391,902.74	10,863,000.55
14	09/15/08	-	-	2,805,947.00	10,863,000.55
15	03/15/09	-	-	1,668,503.53	10,863,000.55
16	09/15/09	-	-	1,015,581.42	10,863,000.55
17	03/15/10	-	-	-	10,593,428.86
18	09/15/10	-	-	-	9,822,901.82
19	03/15/11	-	-	-	8,327,172.91
20	09/15/11	-	-	-	7,484,968.99
21	03/15/12	-	-	-	5,850,102.49
22	09/15/12	-	-	-	4,900,383.16
23	03/15/13	-	-	-	3,056,810.30
24	09/15/13	-	-	-	2,006,540.56
25	03/15/14	-	-	-	-

Tab 7: Reliant vs. RRB

	A1	A2	A3	A4	Total
PV of Interest Savings	$87,051.59	$479,878.49	$614,359.56	$1,774,005.84	$2,955,295.48
Nominal Interest Savings	$93,434.51	$550,673.49	$747,819.79	2,381,847.26	$3,773,775.05

		Original Coupon	3.8400%	4.7600%	5.1600%	5.6300%
			A1	A2	A3	A4
			Interest Savings	Interest Savings	Interest Savings	Interest Savings
0	10/24/01					
1	03/15/02		13,512.50	41,595.00	40,733.33	90,685.79
2	09/15/02		17,250.00	53,100.00	52,000.00	115,769.10
3	03/15/03		15,284.15	53,100.00	52,000.00	115,769.10
4	09/15/03		14,329.30	53,100.00	52,000.00	115,769.10
5	03/15/04		12,475.78	53,100.00	52,000.00	115,769.10
6	09/15/04		10,375.13	53,100.00	52,000.00	115,769.10
7	03/15/05		6,297.38	53,100.00	52,000.00	115,769.10
8	09/15/05		3,910.27	53,100.00	52,000.00	115,769.10
9	03/15/06		-	50,929.42	52,000.00	115,769.10
10	09/15/06		-	42,622.28	52,000.00	115,769.10
11	03/15/07		-	26,496.65	52,000.00	115,769.10
12	09/15/07		-	17,330.15	52,000.00	115,769.10
13	03/15/08		-	-	51,587.87	115,769.10
14	09/15/08		-	-	42,676.00	115,769.10
15	03/15/09		-	-	25,376.48	115,769.10
16	09/15/09		-	-	15,446.11	115,769.10
17	03/15/10		-	-	-	112,896.22
18	09/15/10		-	-	-	104,684.57
19	03/15/11		-	-	-	88,744.29
20	09/15/11		-	-	-	79,768.76
21	03/15/12		-	-	-	62,345.67
22	09/15/12		-	-	-	52,224.33
23	03/15/13		-	-	-	32,577.02
24	09/15/13		-	-	-	21,384.09
25	03/15/14		-	-	-	-

Tab 7: Reliant vs. RRB (continued)

	Original Coupon	3.8400%	4.7600%	5.1600%	5.6300%
		A1	A2	A3	A4
		Interest	Interest	Interest	Interest
0	10/24/01				
1	03/15/02	1,729,600.00	2,199,913.33	2,627,300.00	8,509,350.43
2	09/15/02	2,208,000.00	2,808,400.00	3,354,000.00	10,863,000.55
3	03/15/03	1,956,370.60	2,808,400.00	3,354,000.00	10,863,000.55
4	09/15/03	1,834,150.62	2,808,400.00	3,354,000.00	10,863,000.55
5	03/15/04	1,596,900.04	2,808,400.00	3,354,000.00	10,863,000.55
6	09/15/04	1,328,016.06	2,808,400.00	3,354,000.00	10,863,000.55
7	03/15/05	806,064.81	2,808,400.00	3,354,000.00	10,863,000.55
8	09/15/05	500,514.82	2,808,400.00	3,354,000.00	10,863,000.55
9	03/15/06	-	2,693,600.20	3,354,000.00	10,863,000.55
10	09/15/06	-	2,254,244.80	3,354,000.00	10,863,000.55
11	03/15/07	-	1,401,378.41	3,354,000.00	10,863,000.55
12	09/15/07	-	916,572.44	3,354,000.00	10,863,000.55
13	03/15/08	-	-	3,327,417.90	10,863,000.55
14	09/15/08	-	-	2,752,602.00	10,863,000.55
15	03/15/09	-	-	1,636,782.93	10,863,000.55
16	09/15/09	-	-	996,273.79	10,863,000.55
17	03/15/10	-	-	-	10,593,428.86
18	09/15/10	-	-	-	9,822,901.82
19	03/15/11	-	-	-	8,327,172.91
20	09/15/11	-	-	-	7,484,968.99
21	03/15/12	-	-	-	5,850,102.49
22	09/15/12	-	-	-	4,900,383.16
23	03/15/13	-	-	-	3,056,810.30
24	09/15/13	-	-	-	2,006,540.56
25	03/15/14	-	-	-	-

Tab 7: Reliant vs. RRB (continued)

	New Coupon	3.8700%	4.8500%	5.2400%	5.6900%
		A1	A2	A3	A4
		Interest	Interest	Interest	Interest
0	10/24/01				
1	03/15/02	1,743,112.50	2,241,508.33	2,668,033.33	8,600,036.23
2	09/15/02	2,225,250.00	2,861,500.00	3,406,000.00	10,978,769.65
3	03/15/03	1,971,654.74	2,861,500.00	3,406,000.00	10,978,769.65
4	09/15/03	1,848,479.92	2,861,500.00	3,406,000.00	10,978,769.65
5	03/15/04	1,609,375.82	2,861,500.00	3,406,000.00	10,978,769.65
6	09/15/04	1,338,391.18	2,861,500.00	3,406,000.00	10,978,769.65
7	03/15/05	812,362.19	2,861,500.00	3,406,000.00	10,978,769.65
8	09/15/05	504,425.09	2,861,500.00	3,406,000.00	10,978,769.65
9	03/15/06	-	2,744,529.62	3,406,000.00	10,978,769.65
10	09/15/06	-	2,296,867.07	3,406,000.00	10,978,769.65
11	03/15/07	-	1,427,875.07	3,406,000.00	10,978,769.65
12	09/15/07	-	933,902.59	3,406,000.00	10,978,769.65
13	03/15/08	-	-	3,379,005.77	10,978,769.65
14	09/15/08	-	-	2,795,278.00	10,978,769.65
15	03/15/09	-	-	1,662,159.41	10,978,769.65
16	09/15/09	-	-	1,011,719.89	10,978,769.65
17	03/15/10	-	-	-	10,706,325.08
18	09/15/10	-	-	-	9,927,586.39
19	03/15/11	-	-	-	8,415,917.20
20	09/15/11	-	-	-	7,564,737.76
21	03/15/12	-	-	-	5,912,448.16
22	09/15/12	-	-	-	4,952,607.49
23	03/15/13	-	-	-	3,089,387.32
24	09/15/13	-	-	-	2,027,924.65
25	03/15/14	-	-	-	-

Tab 8: CPL vs. CC

		A1	A2	A3	A4	A5
PV of Interest Savings		$215,266.99	$653,301.59	$645,317.20	$2,619,711.13	$0.00
Nominal Interest Savings		$223,076.58	$729,971.18	$776,169.30	$3,438,008.65	$0.00
Original Coupon		3.54%	5.01%	5.56%	5.96%	6.25%
		A1 Interest Savings	A2 Interest Savings	A3 Interest Savings	A4 Interest Savings	A5 Interest Savings
0	02/07/02					
1	01/15/03	108,962.95	145,064.73	100,549.61	322,867.72	-
2	07/15/03	43,710.09	77,253.41	53,547.13	171,941.39	-
3	01/15/04	35,071.85	77,253.41	53,547.13	171,941.39	-
4	07/15/04	22,107.79	77,253.41	53,547.13	171,941.39	-
5	01/15/05	13,223.90	77,253.41	53,547.13	171,941.39	-
6	07/15/05	-	77,253.41	53,547.13	171,941.39	-
7	01/15/06	-	66,956.91	53,547.13	171,941.39	-
8	07/15/06	-	51,636.25	53,547.13	171,941.39	-
9	01/15/07	-	40,824.52	53,547.13	171,941.39	-
10	07/15/07	-	24,761.90	53,547.13	171,941.39	-
11	01/15/08	-	14,459.84	53,547.13	171,941.39	-
12	07/15/08	-	-	53,547.13	171,941.39	-
13	01/15/09	-	-	42,953.31	171,941.39	-
14	07/15/09	-	-	27,508.21	171,941.39	-
15	01/15/10	-	-	16,139.75	171,941.39	-
16	07/15/10	-	-	-	171,941.39	-
17	01/15/11	-	-	-	152,504.87	-
18	07/15/11	-	-	-	125,407.58	-
19	01/15/12	-	-	-	104,536.06	-
20	07/15/12	-	-	-	76,057.59	-
21	01/15/13	-	-	-	53,789.27	-
22	07/15/13	-	-	-	23,724.71	-
23	01/15/14	-	-	-	-	-
24	07/15/14	-	-	-	-	-
25	01/15/15	-	-	-	-	-
26	07/15/15	-	-	-	-	-
27	01/15/16	-	-	-	-	-
28	07/15/16	-	-	-	-	-

Tab 8: CPL vs. CC (continued)

	Original Coupon	3.5400%	5.0100%	5.5600%	5.9600%	6.2500%
		A1 Interest	**A2 Interest**	**A3 Interest**	**A4 Interest**	**A5 Interest**
0	02/07/02					
1	01/15/03	4,285,875.91	7,267,742.83	5,590,558.25	12,026,822.64	11,258,267.01
2	07/15/03	1,719,263.50	3,870,395.59	2,977,220.37	6,404,816.79	5,995,526.81
3	01/15/04	1,379,492.95	3,870,395.59	2,977,220.37	6,404,816.79	5,995,526.81
4	07/15/04	869,572.96	3,870,395.59	2,977,220.37	6,404,816.79	5,995,526.81
5	01/15/05	520,140.18	3,870,395.59	2,977,220.37	6,404,816.79	5,995,526.81
6	07/15/05	-	3,870,395.59	2,977,220.37	6,404,816.79	5,995,526.81
7	01/15/06	-	3,354,541.39	2,977,220.37	6,404,816.79	5,995,526.81
8	07/15/06	-	2,586,975.90	2,977,220.37	6,404,816.79	5,995,526.81
9	01/15/07	-	2,045,308.50	2,977,220.37	6,404,816.79	5,995,526.81
10	07/15/07	-	1,240,571.29	2,977,220.37	6,404,816.79	5,995,526.81
11	01/15/08	-	724,438.11	2,977,220.37	6,404,816.79	5,995,526.81
12	07/15/08	-	-	2,977,220.37	6,404,816.79	5,995,526.81
13	01/15/09	-	-	2,388,203.92	6,404,816.79	5,995,526.81
14	07/15/09	-	-	1,529,456.70	6,404,816.79	5,995,526.81
15	01/15/10	-	-	897,370.10	6,404,816.79	5,995,526.81
16	07/15/10	-	-	-	6,404,816.79	5,995,526.81
17	01/15/11	-	-	-	5,680,806.27	5,995,526.81
18	07/15/11	-	-	-	4,671,432.30	5,995,526.81
19	01/15/12	-	-	-	3,893,968.09	5,995,526.81
20	07/15/12	-	-	-	2,833,145.15	5,995,526.81
21	01/15/13	-	-	-	2,003,650.14	5,995,526.81
22	07/15/13	-	-	-	883,745.58	5,995,526.81
23	01/15/14	-	-	-	-	5,995,526.81
24	07/15/14	-	-	-	-	4,754,487.75
25	01/15/15	-	-	-	-	3,758,205.41
26	07/15/15	-	-	-	-	2,450,386.22
27	01/15/16	-	-	-	-	1,381,196.19
28	07/15/16	-	-	-	-	-

Tab 8: CPL vs. CC (continued)

	New Coupon	3.6300%	5.1100%	5.6600%	6.1200%	6.2500%
		A1 Interest	**A2 Interest**	**A3 Interest**	**A4 Interest**	**A5 Interest**
0	02/07/02					
1	01/15/03	4,394,838.86	7,412,807.56	5,691,107.86	12,349,690.37	11,258,267.01
2	07/15/03	1,762,973.59	3,947,649.00	3,030,767.50	6,576,758.18	5,995,526.81
3	01/15/04	1,414,564.81	3,947,649.00	3,030,767.50	6,576,758.18	5,995,526.81
4	07/15/04	891,680.75	3,947,649.00	3,030,767.50	6,576,758.18	5,995,526.81
5	01/15/05	533,364.09	3,947,649.00	3,030,767.50	6,576,758.18	5,995,526.81
6	07/15/05	-	3,947,649.00	3,030,767.50	6,576,758.18	5,995,526.81
7	01/15/06	-	3,421,498.31	3,030,767.50	6,576,758.18	5,995,526.81
8	07/15/06	-	2,638,612.15	3,030,767.50	6,576,758.18	5,995,526.81
9	01/15/07	-	2,086,133.02	3,030,767.50	6,576,758.18	5,995,526.81
10	07/15/07	-	1,265,333.19	3,030,767.50	6,576,758.18	5,995,526.81
11	01/15/08	-	738,897.95	3,030,767.50	6,576,758.18	5,995,526.81
12	07/15/08	-	-	3,030,767.50	6,576,758.18	5,995,526.81
13	01/15/09	-	-	2,431,157.23	6,576,758.18	5,995,526.81
14	07/15/09	-	-	1,556,964.91	6,576,758.18	5,995,526.81
15	01/15/10	-	-	913,509.85	6,576,758.18	5,995,526.81
16	07/15/10	-	-	-	6,576,758.18	5,995,526.81
17	01/15/11	-	-	-	5,833,311.14	5,995,526.81
18	07/15/11	-	-	-	4,796,839.87	5,995,526.81
19	01/15/12	-	-	-	3,998,504.14	5,995,526.81
20	07/15/12	-	-	-	2,909,202.74	5,995,526.81
21	01/15/13	-	-	-	2,057,439.41	5,995,526.81
22	07/15/13	-	-	-	907,470.30	5,995,526.81
23	01/15/14	-	-	-	-	5,995,526.81
24	07/15/14	-	-	-	-	4,754,487.75
25	01/15/15	-	-	-	-	3,758,205.41
26	07/15/15	-	-	-	-	2,450,386.22
27	01/15/16	-	-	-	-	1,381,196.19
28	07/15/16	-	-	-	-	-

Tab 9: CPL vs. RRB

	A1	A2	A3	A4	A5	Total
PV of Interest Savings	$287,022.66	$993,018.42	$1,032,507.52	$3,110,906.97	$4,325,620.62	$9,748,976.19
Nominal Interest Savings	297,435.44	1,109,556.19	$1,241,870.88	$4,082,635.27	6,220,165.30	$12,951,663.08

	Original Coupon	3.54%	5.01%	5.56%	5.96%	6.25%
		A1	A2	A3	A4	A5
		Interest Savings	Interest Savings	Interest Savings	Interest Savings	Interest Savings
0	02/07/02					
1	01/15/03	145,283.93	220,498.39	160,879.37	383,405.42	450,330.68
2	07/15/03	58,280.12	117,425.18	85,675.41	204,180.40	239,821.07
3	01/15/04	46,762.47	117,425.18	85,675.41	204,180.40	239,821.07
4	07/15/04	29,477.05	117,425.18	85,675.41	204,180.40	239,821.07
5	01/15/05	17,631.87	117,425.18	85,675.41	204,180.40	239,821.07
6	07/15/05	-	117,425.18	85,675.41	204,180.40	239,821.07
7	01/15/06	-	101,774.51	85,675.41	204,180.40	239,821.07
8	07/15/06	-	78,487.09	85,675.41	204,180.40	239,821.07
9	01/15/07	-	62,053.27	85,675.41	204,180.40	239,821.07
10	07/15/07	-	37,638.09	85,675.41	204,180.40	239,821.07
11	01/15/08	-	21,978.96	85,675.41	204,180.40	239,821.07
12	07/15/08	-	-	85,675.41	204,180.40	239,821.07
13	01/15/09	-	-	68,725.29	204,180.40	239,821.07
14	07/15/09	-	-	44,013.14	204,180.40	239,821.07
15	01/15/10	-	-	25,823.60	204,180.40	239,821.07
16	07/15/10	-	-	-	204,180.40	239,821.07
17	01/15/11	-	-	-	181,099.53	239,821.07
18	07/15/11	-	-	-	148,921.50	239,821.07
19	01/15/12	-	-	-	124,136.57	239,821.07
20	07/15/12	-	-	-	90,318.39	239,821.07
21	01/15/13	-	-	-	63,874.75	239,821.07
22	07/15/13	-	-	-	28,173.10	239,821.07
23	01/15/14	-	-	-	-	239,821.07
24	07/15/14	-	-	-	-	190,179.51
25	01/15/15	-	-	-	-	150,328.22
26	07/15/15	-	-	-	-	98,015.45
27	01/15/16	-	-	-	-	55,247.85
28	07/15/16	-	-	-	-	-

Tab 9: CPL vs. RRB (continued)

	Original Coupon	3.5400%	5.0100%	5.5600%	5.9600%	6.2500%
		A1	A2	A3	A4	A5
		Interest	Interest	Interest	Interest	Interest
0	02/07/02					
1	01/15/03	4,285,875.91	7,267,742.83	5,590,558.25	12,026,822.64	11,258,267.01
2	07/15/03	1,719,263.50	3,870,395.59	2,977,220.37	6,404,816.79	5,995,526.81
3	01/15/04	1,379,492.95	3,870,395.59	2,977,220.37	6,404,816.79	5,995,526.81
4	07/15/04	869,572.96	3,870,395.59	2,977,220.37	6,404,816.79	5,995,526.81
5	01/15/05	520,140.18	3,870,395.59	2,977,220.37	6,404,816.79	5,995,526.81
6	07/15/05	-	3,870,395.59	2,977,220.37	6,404,816.79	5,995,526.81
7	01/15/06	-	3,354,541.39	2,977,220.37	6,404,816.79	5,995,526.81
8	07/15/06	-	2,586,975.90	2,977,220.37	6,404,816.79	5,995,526.81
9	01/15/07	-	2,045,308.50	2,977,220.37	6,404,816.79	5,995,526.81
10	07/15/07	-	1,240,571.29	2,977,220.37	6,404,816.79	5,995,526.81
11	01/15/08	-	724,438.11	2,977,220.37	6,404,816.79	5,995,526.81
12	07/15/08	-	-	2,977,220.37	6,404,816.79	5,995,526.81
13	01/15/09	-	-	2,388,203.92	6,404,816.79	5,995,526.81
14	07/15/09	-	-	1,529,456.70	6,404,816.79	5,995,526.81
15	01/15/10	-	-	897,370.10	6,404,816.79	5,995,526.81
16	07/15/10	-	-	-	6,404,816.79	5,995,526.81
17	01/15/11	-	-	-	5,680,806.27	5,995,526.81
18	07/15/11	-	-	-	4,671,432.30	5,995,526.81
19	01/15/12	-	-	-	3,893,968.09	5,995,526.81
20	07/15/12	-	-	-	2,833,145.15	5,995,526.81
21	01/15/13	-	-	-	2,003,650.14	5,995,526.81
22	07/15/13	-	-	-	883,745.58	5,995,526.81
23	01/15/14	-	-	-	-	5,995,526.81
24	07/15/14	-	-	-	-	4,754,487.75
25	01/15/15	-	-	-	-	3,758,205.41
26	07/15/15	-	-	-	-	2,450,386.22
27	01/15/16	-	-	-	-	1,381,196.19
28	07/15/16	-	-	-	-	-

Tab 9: CPL vs. RRB (continued)

	New Coupon	3.6600%	5.1620%	5.7200%	6.1500%	6.5000%
		A1	A2	A3	A4	A5
		Interest	Interest	Interest	Interest	Interest
0	02/07/02					
1	01/15/03	4,431,159.84	7,488,241.22	5,751,437.63	12,410,228.06	11,708,597.70
2	07/15/03	1,777,543.62	3,987,820.77	3,062,895.78	6,608,997.19	6,235,347.89
3	01/15/04	1,426,255.43	3,987,820.77	3,062,895.78	6,608,997.19	6,235,347.89
4	07/15/04	899,050.01	3,987,820.77	3,062,895.78	6,608,997.19	6,235,347.89
5	01/15/05	537,772.05	3,987,820.77	3,062,895.78	6,608,997.19	6,235,347.89
6	07/15/05	-	3,987,820.77	3,062,895.78	6,608,997.19	6,235,347.89
7	01/15/06	-	3,456,315.90	3,062,895.78	6,608,997.19	6,235,347.89
8	07/15/06	-	2,665,462.99	3,062,895.78	6,608,997.19	6,235,347.89
9	01/15/07	-	2,107,361.77	3,062,895.78	6,608,997.19	6,235,347.89
10	07/15/07	-	1,278,209.38	3,062,895.78	6,608,997.19	6,235,347.89
11	01/15/08	-	746,417.07	3,062,895.78	6,608,997.19	6,235,347.89
12	07/15/08	-	-	3,062,895.78	6,608,997.19	6,235,347.89
13	01/15/09	-	-	2,456,929.22	6,608,997.19	6,235,347.89
14	07/15/09	-	-	1,573,469.84	6,608,997.19	6,235,347.89
15	01/15/10	-	-	923,193.70	6,608,997.19	6,235,347.89
16	07/15/10	-	-	-	6,608,997.19	6,235,347.89
17	01/15/11	-	-	-	5,861,905.80	6,235,347.89
18	07/15/11	-	-	-	4,820,353.79	6,235,347.89
19	01/15/12	-	-	-	4,018,104.65	6,235,347.89
20	07/15/12	-	-	-	2,923,463.54	6,235,347.89
21	01/15/13	-	-	-	2,067,524.90	6,235,347.89
22	07/15/13	-	-	-	911,918.68	6,235,347.89
23	01/15/14	-	-	-	-	6,235,347.89
24	07/15/14	-	-	-	-	4,944,667.26
25	01/15/15	-	-	-	-	3,908,533.62
26	07/15/15	-	-	-	-	2,548,401.67
27	01/15/16	-	-	-	-	1,436,444.04
28	07/15/16	-	-	-	-	-

Tab 10: CC Spreads to Swaps

AAA Credit Cards Spread to Swaps

	2 Year	3 Year	5 Year	7 Year	10 Year
04/14/00	5.00	6.00	8.00	12.00	17.00
04/20/00	4.00	5.00	8.00	12.00	16.00
04/28/00	4.00	5.00	8.00	12.00	16.00
05/05/00	4.00	5.00	8.00	13.00	17.00
05/12/00	4.00	5.00	8.00	14.00	16.00
05/19/00	3.00	3.00	8.00	13.00	16.00
05/26/00	3.00	3.00	8.00	13.00	16.00
06/02/00	5.00	7.00	9.00	15.00	19.00
06/09/00	5.00	7.00	10.00	15.00	19.00
06/16/00	5.00	7.00	10.00	15.00	19.00
06/23/00	3.00	6.00	8.00	14.00	19.00
06/30/00	3.00	5.00	8.00	14.00	19.00
07/07/00	2.00	4.00	6.00	15.00	17.00
07/14/00	3.00	4.00	7.00	13.00	17.00
07/21/00	3.00	4.00	7.00	12.00	16.00
07/28/00	3.00	4.00	7.00	12.00	16.00
08/04/00	3.00	4.00	6.00	12.00	16.00
08/11/00	4.00	5.00	7.00	13.00	17.00
08/18/00	4.00	5.00	8.00	13.00	17.00
08/25/00	4.00	6.00	10.00	15.00	20.00
09/01/00	3.00	4.00	9.00	14.00	18.00
09/08/00	3.00	5.00	9.00	14.00	18.00
09/15/00	3.00	5.00	8.00	13.00	17.00
09/22/00	3.00	5.00	9.00	13.00	17.00
09/29/00	3.00	5.00	8.00	13.00	18.00
10/06/00	2.00	4.00	7.00	13.00	18.00
10/13/00	4.00	5.00	9.00	15.00	19.00
10/20/00	5.00	6.00	8.00	16.00	21.00
10/27/00	5.00	6.00	10.00	17.00	22.00
11/03/00	5.00	6.00	10.00	16.00	21.00
11/10/00	3.00	5.00	8.00	15.00	20.00
11/17/00	3.00	5.00	8.00	15.00	22.00
11/23/00	5.00	7.00	9.00	14.00	20.00
12/01/00	5.00	7.00	9.00	14.00	22.00
12/08/00	5.00	7.00	8.00	15.00	24.00
12/15/00	7.00	9.00	12.00	18.00	26.00
12/22/00	9.00	10.00	12.00	18.00	26.00
12/29/00	9.00	10.00	12.00	20.00	26.00
01/05/01	7.00	10.00	12.00	20.00	26.00
01/12/01	7.00	10.00	12.00	20.00	26.00
01/19/01	7.00	10.00	12.00	20.00	26.00
01/26/01	7.00	9.00	12.00	20.00	26.00
02/02/01	8.00	9.00	12.00	19.00	26.00
02/09/01	8.00	10.00	12.00	18.00	26.00
02/16/01	9.00	10.00	13.00	18.00	26.00
02/23/01	8.00	10.00	13.00	18.00	26.00
03/02/01	8.00	9.00	12.00	17.00	25.00
03/09/01	8.00	9.00	13.00	18.00	25.00
03/16/01	9.00	10.00	13.00	19.00	26.00
03/23/01	9.00	10.00	13.00	19.00	26.00
03/30/01	9.00	10.00	13.00	19.00	26.00
04/06/01	8.00	9.00	13.00	19.00	25.00
04/13/01	9.00	10.00	14.00	19.00	25.00

Tab 10: CC Spreads to Swaps (continued)

AAA Credit Cards Spread to Swaps

	2 Year	3 Year	5 Year	7 Year	10 Year
04/20/01	9.00	10.00	14.00	19.00	25.00
04/27/01	8.00	10.00	14.00	19.00	25.00
05/04/01	8.00	10.00	12.00	18.00	25.00
5/11/2001	8.00	10.00	13.00	18.00	25.00
5/18/2001	8.00	10.00	12.00	18.00	25.00
5/25/2001	7.00	9.00	12.00	17.00	24.00
6/1/2001	7.00	8.00	12.00	17.00	24.00
6/8/2001	8.00	8.00	10.00	17.00	26.00
6/15/2001	6.00	9.00	10.00	16.00	26.00
6/22/2001	6.00	8.00	10.00	16.00	26.00
6/29/2001	6.00	8.00	10.00	16.00	24.00
07/06/01	6.00	8.00	10.00	16.00	24.00
07/13/01	6.00	8.00	10.00	16.00	24.00
07/20/01	5.00	6.00	9.00	16.00	24.00
07/27/01	5.00	6.00	9.00	16.00	24.00
08/03/01	5.00	6.00	9.00	15.00	24.00
08/10/01	4.00	5.00	8.00	14.00	23.00
08/17/01	4.00	5.00	8.00	14.00	23.00
08/24/01	5.00	5.00	9.00	14.00	22.00
08/31/01	5.00	5.00	9.00	14.00	22.00
09/07/01	5.00	5.00	8.00	13.00	22.00
09/14/01	12.00	14.00	16.00	21.00	28.00
09/21/01	12.00	14.00	16.00	21.00	28.00
09/28/01	12.00	16.00	20.00	27.00	30.00
10/05/01	14.00	16.00	19.00	24.00	32.00
10/12/2001	14.00	14.00	19.00	24.00	32.00
10/19/2001	12.00	13.00	18.00	22.00	30.00
10/26/2001	12.00	14.00	17.00	22.00	30.00
11/2/2001	14.00	12.00	17.00	22.00	30.00
11/9/2001	14.00	12.00	18.00	23.00	30.00
11/16/2001	13.00	11.00	18.00	23.00	30.00
11/30/2001	13.00	11.00	17.00	23.00	30.00
12/7/2001	14.00	11.00	17.00	23.00	30.00
12/14/2001	10.00	8.00	14.00	19.00	28.00
12/21/2001	6.00	8.00	12.00	15.00	22.00
12/28/2001	6.00	8.00	12.00	15.00	22.00
1/4/2002	6.00	7.00	12.00	15.00	22.00
1/11/2002	6.00	9.00	12.00	15.00	22.00
1/18/2002	6.00	9.00	13.00	14.00	22.00
1/25/2002	6.00	7.00	10.00	14.00	22.00
2/1/2002	6.00	7.00	9.00	14.00	22.00
2/8/2002	6.00	7.00	9.00	14.00	22.00
2/15/2002	5.00	7.00	9.00	14.00	22.00
2/22/2002	5.00	7.00	9.00	14.00	22.00
3/1/2002	5.00	7.00	9.00	14.00	22.00
3/8/2002	5.00	7.00	9.00	14.00	22.00
3/15/2002	5.00	5.00	8.00	12.00	22.00
3/22/2002	5.00	5.00	8.00	12.00	22.00
4/5/2002	5.00	5.00	8.00	12.00	22.00
4/12/2002	5.00	5.00	8.00	12.00	22.00
4/19/2002	5.00	5.00	10.00	13.00	24.00
4/26/2002	5.00	5.00	10.00	13.00	24.00
5/3/2002	5.00	7.00	10.00	16.00	24.00

Tab 10: CC Spreads to Swaps (continued)

AAA Credit Cards Spread to Swaps

	2 Year	3 Year	5 Year	7 Year	10 Year
5/10/2002	5.00	7.00	10.00	16.00	24.00
5/17/2002	3.00	4.00	9.00	15.00	24.00
5/24/2002	3.00	4.00	9.00	15.00	24.00
5/31/2002	3.00	4.00	9.00	15.00	24.00
6/7/2002	3.00	4.00	9.00	15.00	24.00
6/14/2002	3.00	4.00	9.00	15.00	24.00
6/21/2002	3.00	4.00	9.00	15.00	24.00
6/28/2002	3.00	4.00	9.00	15.00	24.00
7/5/2002	3.00	4.00	9.00	15.00	24.00
7/12/2002	3.00	4.00	9.00	15.00	24.00
7/19/2002	5.00	6.00	12.00	18.00	24.00
7/26/2002	6.00	7.00	13.00	19.00	26.00
8/2/2002	6.00	7.00	13.00	21.00	30.00
8/9/2002	7.00	9.00	15.00	21.00	30.00
8/16/2002	7.00	9.00	15.00	23.00	31.00
8/23/2002	8.00	11.00	16.00	23.00	32.00
8/30/2002	6.00	10.00	15.00	23.00	32.00
9/6/2002	6.00	10.00	15.00	23.00	32.00
9/13/2002	6.00	10.00	14.00	23.00	30.00
9/20/2002	6.00	10.00	14.00	23.00	30.00
9/27/2002	6.00	10.00	14.00	23.00	30.00
10/4/2002	6.00	10.00	14.00	23.00	30.00
10/11/2002	6.00	10.00	15.00	26.00	35.00
10/18/2002	6.00	10.00	15.00	26.00	35.00
10/25/2002	5.00	7.00	15.00	26.00	35.00
11/1/2002	5.00	7.00	15.00	26.00	35.00
11/8/2002	7.00	10.00	19.00	30.00	40.00
11/15/2002	7.00	10.00	19.00	30.00	40.00
11/22/2002	7.00	10.00	19.00	30.00	40.00
11/29/2002	7.00	10.00	19.00	30.00	40.00
12/6/2002	7.00	8.00	17.00	30.00	40.00
12/13/2002	7.00	8.00	17.00	30.00	40.00
12/20/2002	6.00	7.00	17.00	30.00	40.00
12/27/2002	6.00	7.00	17.00	30.00	40.00
1/3/2003	6.00	7.00	17.00	30.00	40.00
1/10/2003	6.00	7.00	14.00	27.00	40.00
1/17/2003	5.00	6.00	13.00	23.00	35.00
1/24/2003	5.00	6.00	13.00	23.00	33.00
1/31/2003	3.00	5.00	12.00	22.00	30.00
2/7/2003	3.00	5.00	12.00	22.00	30.00
2/14/2003	3.00	5.00	12.00	22.00	30.00
2/21/2003	3.00	4.00	11.00	22.00	30.00
2/28/2003	3.00	4.00	11.00	20.00	30.00
3/7/2003	3.00	4.00	10.00	20.00	30.00
3/14/2003	3.00	4.00	10.00	20.00	30.00
3/21/2003	3.00	4.00	10.00	20.00	30.00
3/28/2003	3.00	4.00	10.00	20.00	30.00
4/4/2003	3.00	4.00	10.00	20.00	30.00
4/11/2003	3.00	4.00	10.00	20.00	30.00
4/25/2003	3.00	4.00	10.00	20.00	30.00
5/2/2003	3.00	4.00	9.00	20.00	30.00
5/9/2003	3.00	4.00	9.00	20.00	30.00
5/16/2003	3.00	4.00	9.00	20.00	30.00

Tab 10: CC Spreads to Swaps (continued)

AAA Credit Cards Spread to Swaps

	2 Year	3 Year	5 Year	7 Year	10 Year
5/23/2003	3.00	4.00	9.00	20.00	30.00
5/30/2003	3.00	4.00	9.00	20.00	30.00
6/6/2003	3.00	4.00	9.00	20.00	30.00
6/13/2003	3.00	4.00	9.00	20.00	30.00
6/20/2003	3.00	4.00	9.00	18.00	25.00
6/27/2003	3.00	4.00	9.00	17.00	22.00
7/4/2003	3.00	4.00	9.00	17.00	22.00
7/11/2003	3.00	4.00	9.00	17.00	25.00
7/18/2003	3.00	4.00	9.00	17.00	22.00
7/25/2003	3.00	4.00	9.00	17.00	22.00
8/1/2003	4.00	4.00	9.00	17.00	20.00
8/8/2003	4.00	4.00	7.00	16.00	20.00
8/15/2003	4.00	4.00	7.00	16.00	20.00
8/28/2003	5.00	5.00	7.00	15.00	20.00

Exhibit JSF-6. Ratepayer-Backed Bonds Historical Pricing Spreads to Credit Cards

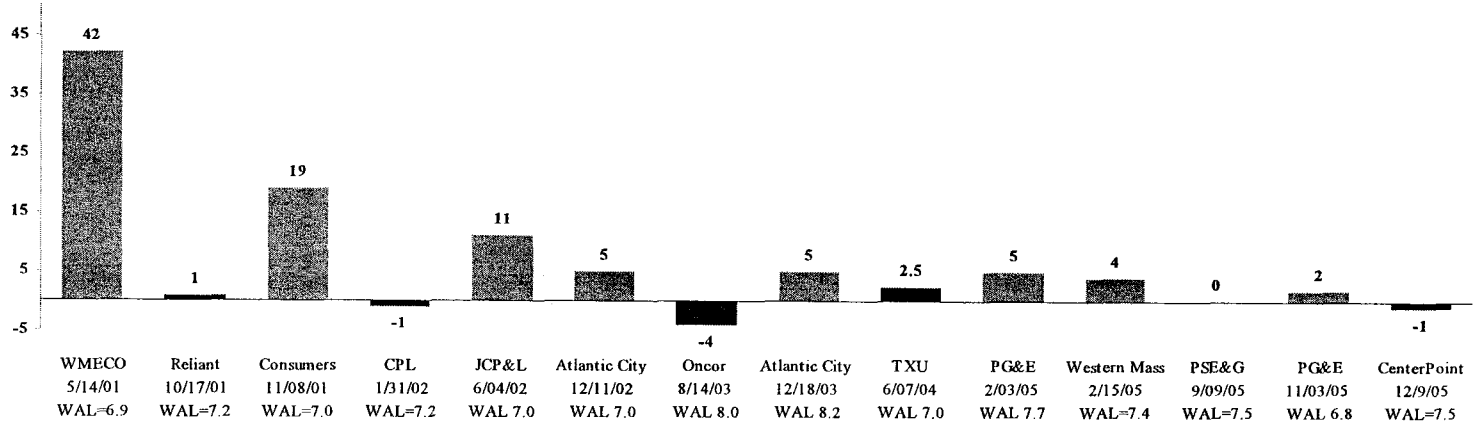
On December 9, 2005, the CenterPoint Energy Transition Bond Company II, LLC, issued $1.85 billion in transition bonds for the recovery of stranded costs. Saber Partners, LLC, advised the Texas Public Utility Commission on the transaction. Lehman Brothers was a lead bookrunning manager on the transaction and provided, post-transaction, a pricing book. The attached charts *Pricing Spreads to Credit Cards* were selected from the pricing book to show the historical pricing of ratepayer-backed bonds versus generic credit card asset-backed securities of the same weighted average life.

On September 9, 2005, the Public Service Electric & Gas Company issued $102.7 million in ratepayer-backed bonds. Saber Partners, LLC advised the New Jersey Board of Public Utilities on the transaction. CSFB was bookrunning managers on the transaction and provided, post-transaction, a pricing book. The attached table *RRB and Credit Card Pricing Comparison* is provided from the pricing book to show in tabular form the relative performance of Saber-Advised transactions (highlighted in yellow) versus other transactions since 2001 in New Jersey and Texas.

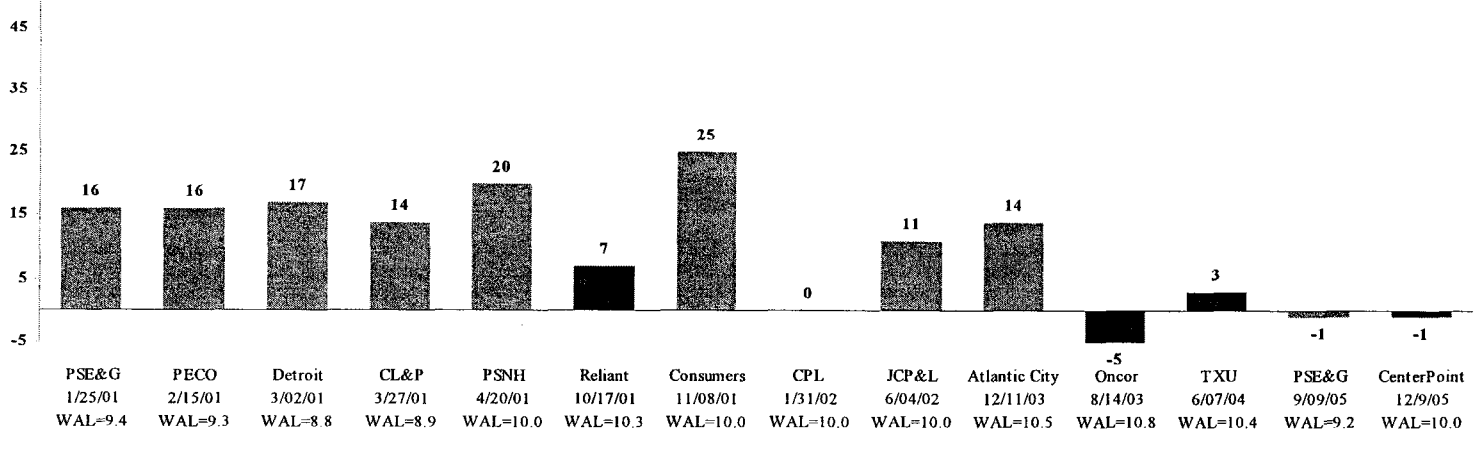
Additionally, Saber Partners has performed its own analysis of transaction spreads for the most common tranche maturities – 2-3 yr, 5-6 yr, 7-8 yr, and 9-10 yr. Spreads to both AAA credit card ABS and interest swaps of the same maturity were analyzed. The final eight charts of this exhibit provide the results of that analysis. Note that some comparisons to the AAA Credit Card ABS benchmark may differ from those presented by Lehman Brothers or Credit Suisse, due to different sources regarding the value of the benchmark.

Pricing Spreads to Credit Cards

2001-2005 Transition Bonds Pricing Spreads to Credit Cards 7-8 Year WAL



2001-2005 Transition Bonds Pricing Spreads to Credit Cards 9-10 Year WAL



Source: Lehman Brothers; red bars denote Texas deals

RRB and Credit Card Pricing Comparison

PSE&G

New Jersey and Texas Transition Bond New Issues vs. Contemporaneous Credit Card ABS

Transaction (Pricing Date)	Class	Original Amount	WAL	Offering Spread vs Swap/EDSF (bps)	Card ABS Spreads	Spread Differential
PSE&G 2005-1 (9/9/05)	A-1	$ 25,200,000	2.00	-5.0	-3.0	-2.0
	A-2	$ 35,000,000	5.00	-1.0	1.0	-2.0
	A-3	$ 20,000,000	7.47	4.0	4.0	0.0
	A-4	$ 22,500,000	9.16	7.0	8.0	-1.0
Rockland Elect. Co. Transition Funding (7/28/04)	A-1	$ 46,300,000	8.69	30.0	15	15.0
Oncor 2004-1 (5/28/2004)	A-1	$ 279,000,000	3.00	3.0	1.0	2.0
	A-2	$ 221,000,000	7.00	12.5	12.0	0.5
	A-3	$ 289,777,000	10.43	18.0	16.0	2.0
Atlantic City Electric (12/18/2003)	A-1	$ 46,000,000	2.97	15.0	4.0	11.0
	A-2	$ 52,000,000	8.24	20.0	17.0	3.0
	A-3	$ 54,000,000	12.90	24.0	25.0	-1.0
Oncor 2003-1 (8/14/2003)	A-1	$ 103,000,000	2.00	7.0	5.0	2.0
	A-2	$ 122,000,000	5.00	7.0	10.0	-3.0
	A-3	$ 130,000,000	8.00	16.0	20.0	-4.0
	A-4	$ 145,000,000	10.83	19.0	25.0	-6.0
Atlantic City Electric (12/11/2002)	A-1	$ 109,000,000	3.00	18.0	8.0	10.0
	A-2	$ 66,000,000	7.00	28.0	23.0	5.0
	A-3	$ 118,000,000	10.50	44.0	32.0	12.0
	A-4	$ 147,000,000	15.39	65.0	47.0	18.0
JCP&L Transition Funding LLC (6/4/2002)	A-1	$ 91,111,000	3.00	14.0	5.0	9.0
	A-2	$ 52,297,000	7.00	27.0	15.0	12.0
	A-3	$ 77,075,000	10.00	35.0	22.0	13.0
	A-4	$ 99,517,000	13.41	43.0	29.0	14.0
CPL Transition Funding LLC (1/31/2002)	A-1	$ 128,950,233	1.92	7.0	6.0	1.0
	A-2	$ 154,506,810	4.72	11.0	9.0	2.0
	A-3	$ 107,094,258	7.25	14.0	16.0	-2.0
	A-4	$ 214,926,738	10.00	24.0	24.0	0.0
	A-5	$ 191,856,858	12.97	34.0	32.0	2.0
Reliant Energy 2001-1 (10/17/2001)	A-1	$ 115,000,000	2.71	16.0	14.0	2.0
	A-2	$ 118,000,000	5.29	17.0	19.0	-2.0
	A-3	$ 130,000,000	7.19	22.0	25.0	-3.0
		$ 748,987,000				
PSE&G 2001-1 (1/25/2001)	A-1	$ 105,249,914	1.00	13.0		
	A-2	$ 368,980,380	2.90	16.0	9.0	7.0
	A-3	$ 182,621,909	4.88	21.0	13.0	8.0
	A-4	$ 496,606,425	7.02	27.2	20.0	7.2
	A-5	$ 328,032,965	9.38	40.0	25.0	15.0
	A-6	$ 453,559,632	11.39	50.0	29.0	21
	A-7	$ 219,688,870	12.99	60.0	34.0	26
	A-8	$ 370,259,905	14.27	70.0	36.0	34

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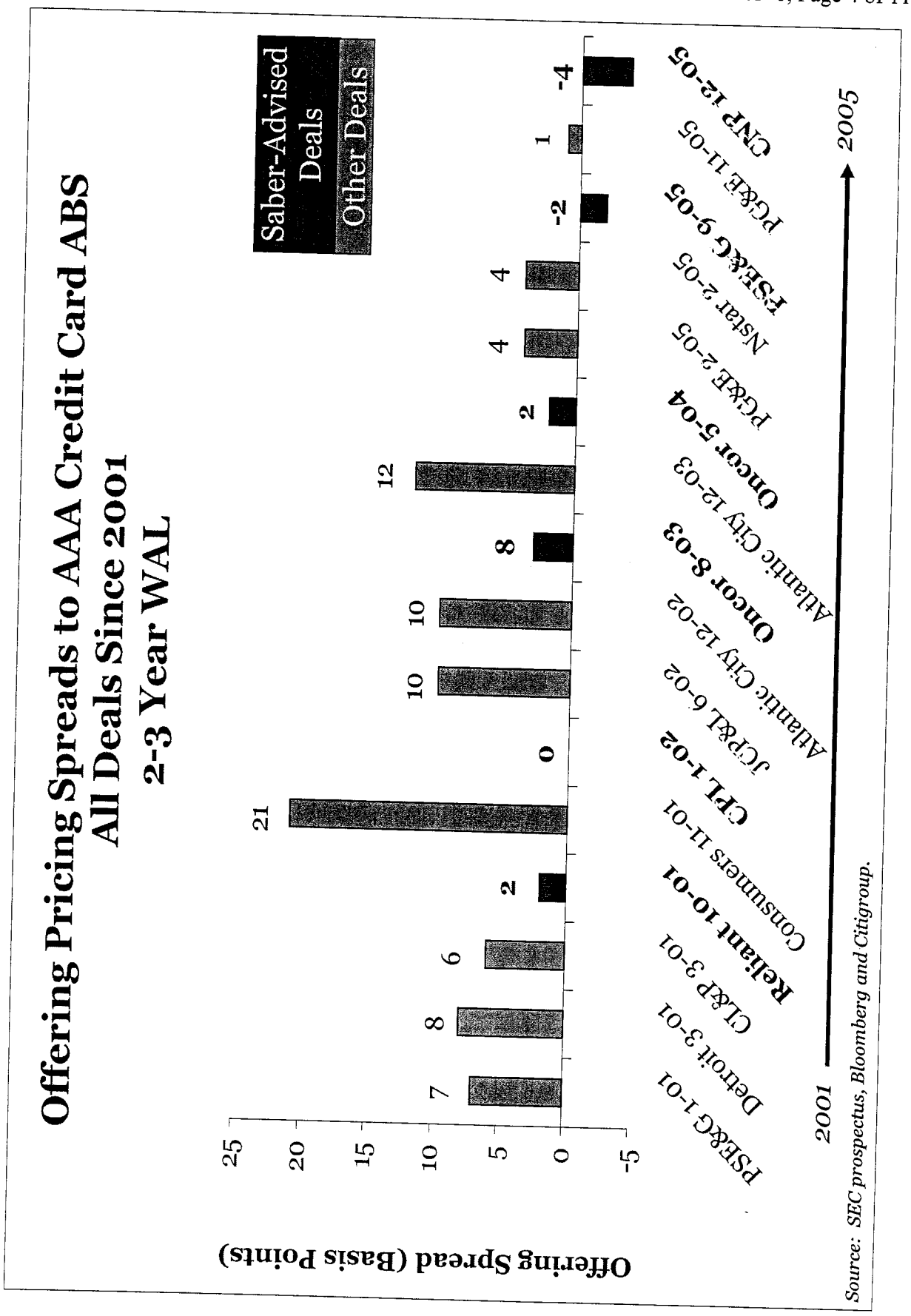
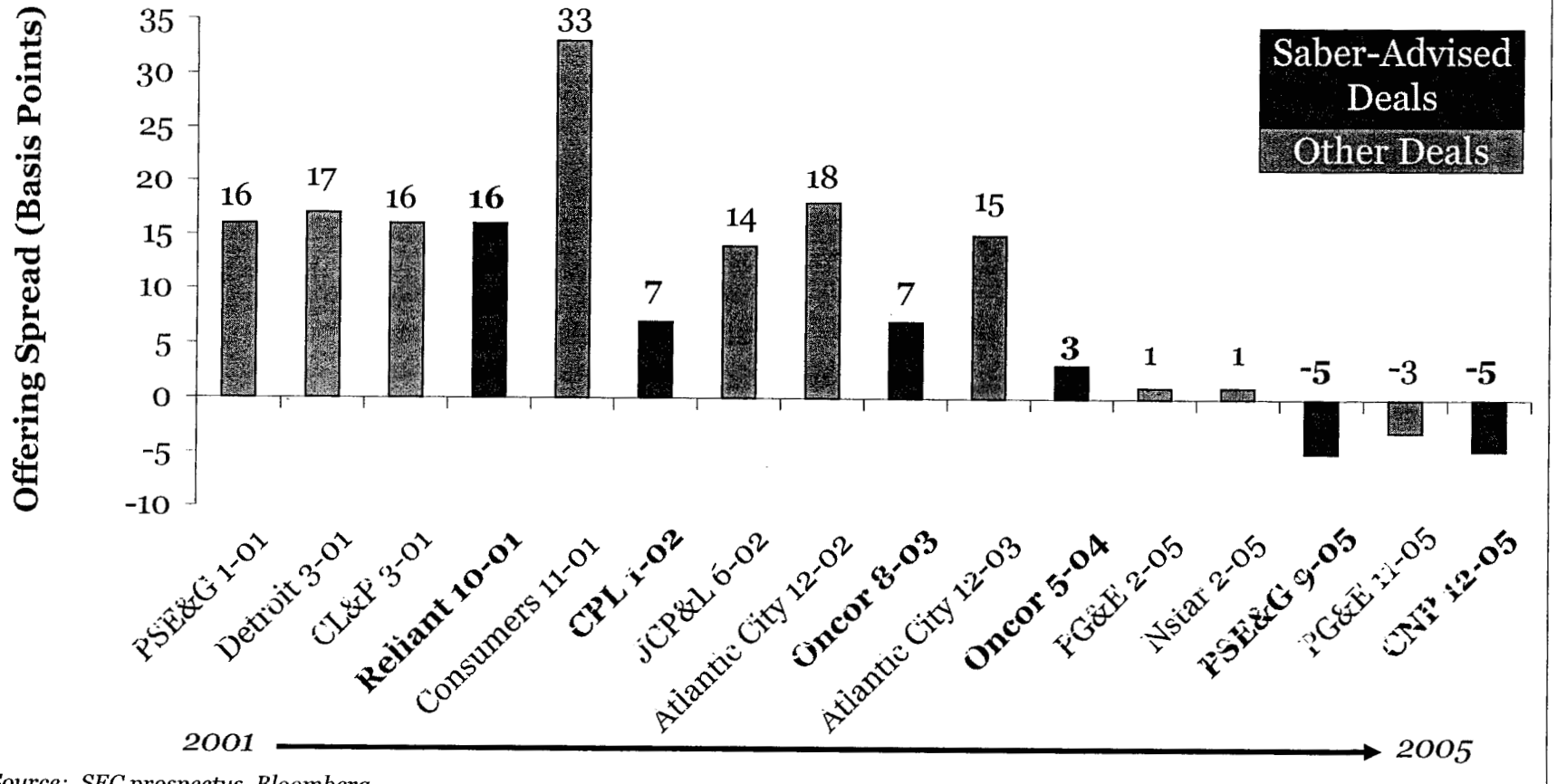
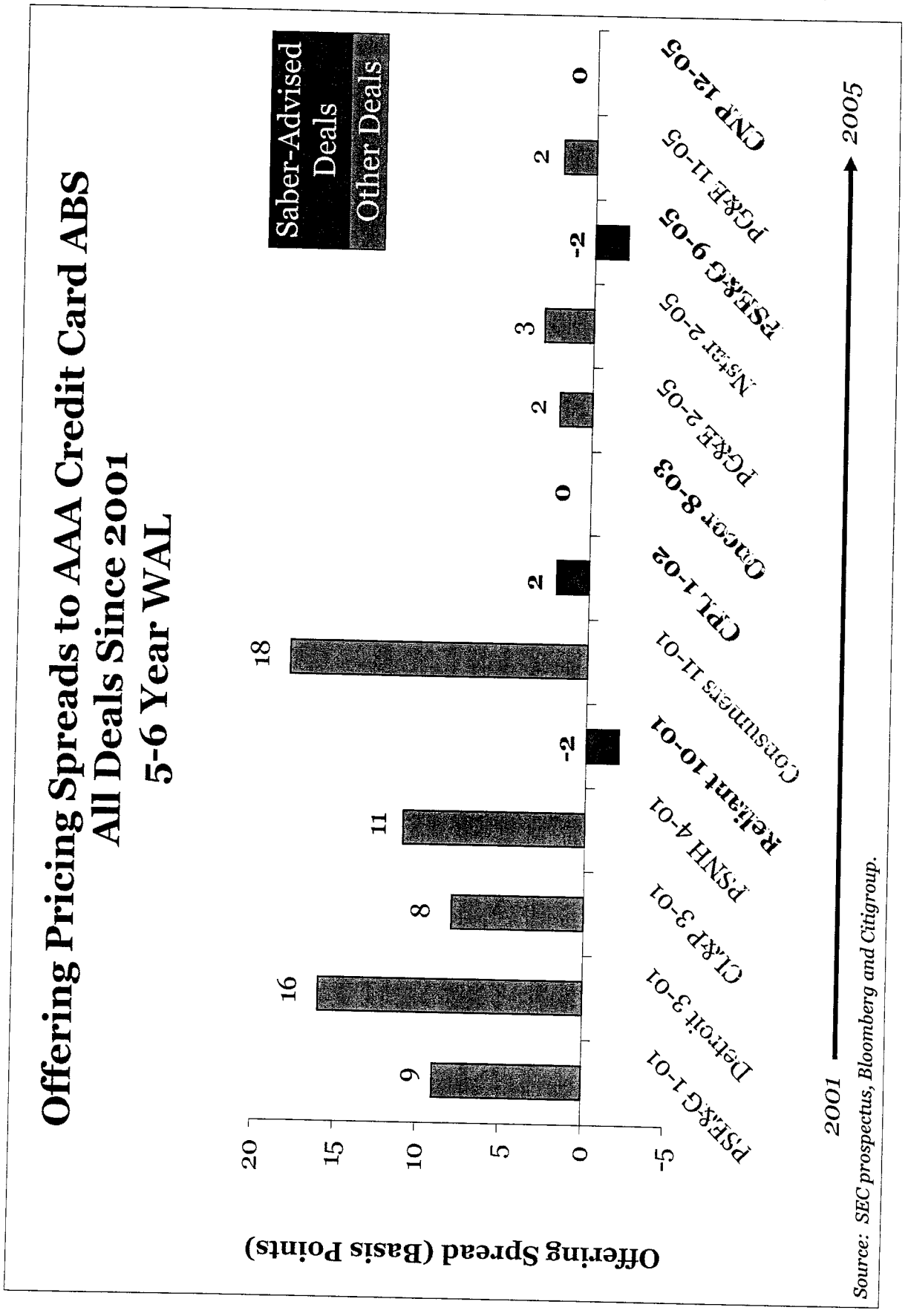

Offering Pricing Spreads to AAA Credit Card ABS
All Deals Since 2001
2-3 Year WAL
Saber-Advised Deals
Other Deals
Offering Spread (Basis Points)
25
20
15
10
5
0
-5
7
8
6
2
21
0
10
10
8
12
2
4
4
-2
1
-4
PSE&G 1-01
Detroit 3-01
CL&P 3-01
Reliant 10-01
Consumers 11-01
CPL 1-02
JCP&L 6-02
Atlantic City 12-02
Oncor 8-03
Atlantic City 12-03
Oncor 5-04
PG&E 2-05
Nstar 2-05
FSE&G 9-05
PG&E 11-05
CNP 12-05
2001
2005
Source: SEC prospectus, Bloomberg and Citigroup.

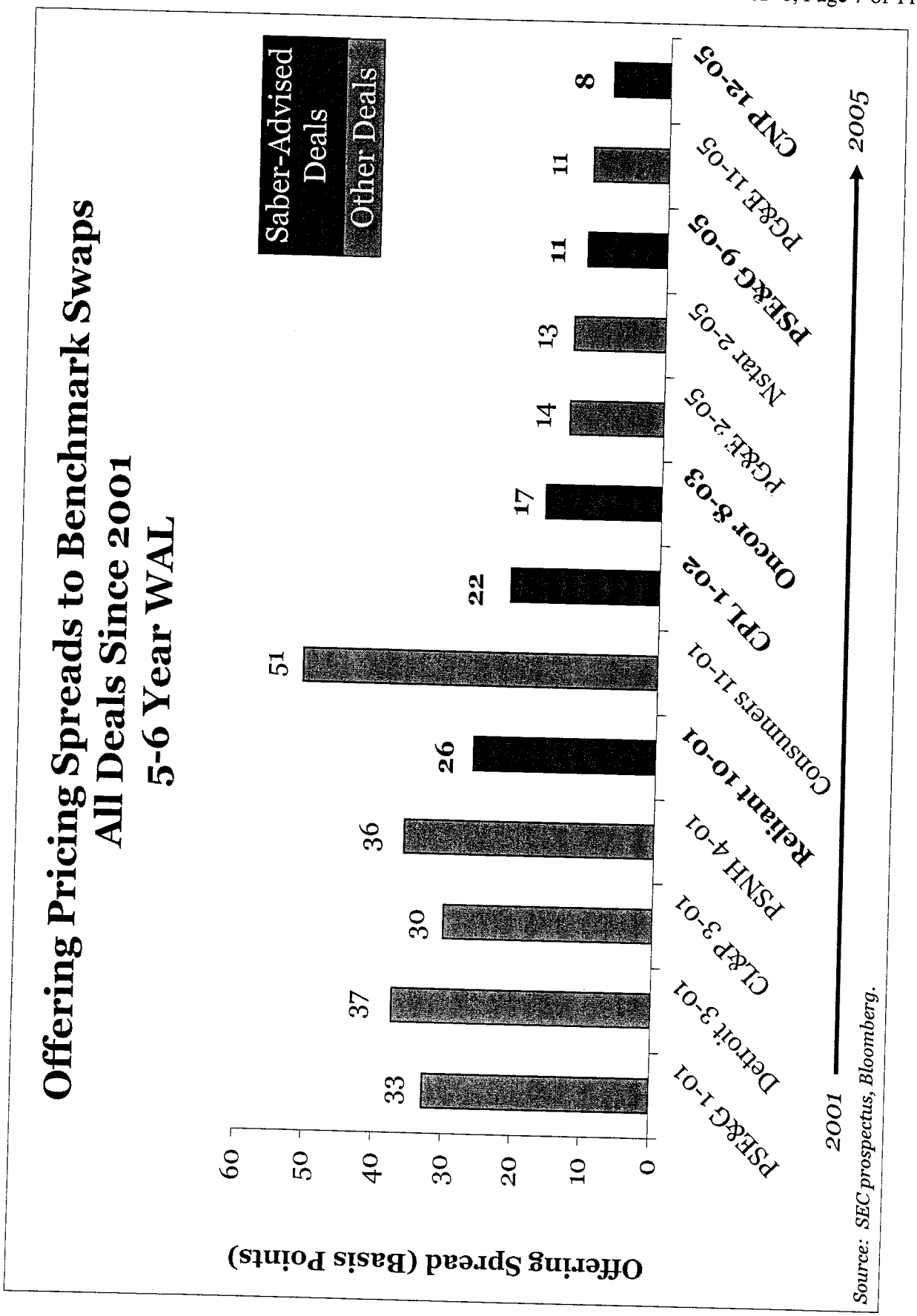
Offering Pricing Spreads to Benchmark Swaps
All Deals Since 2001
2-3 Year WAL



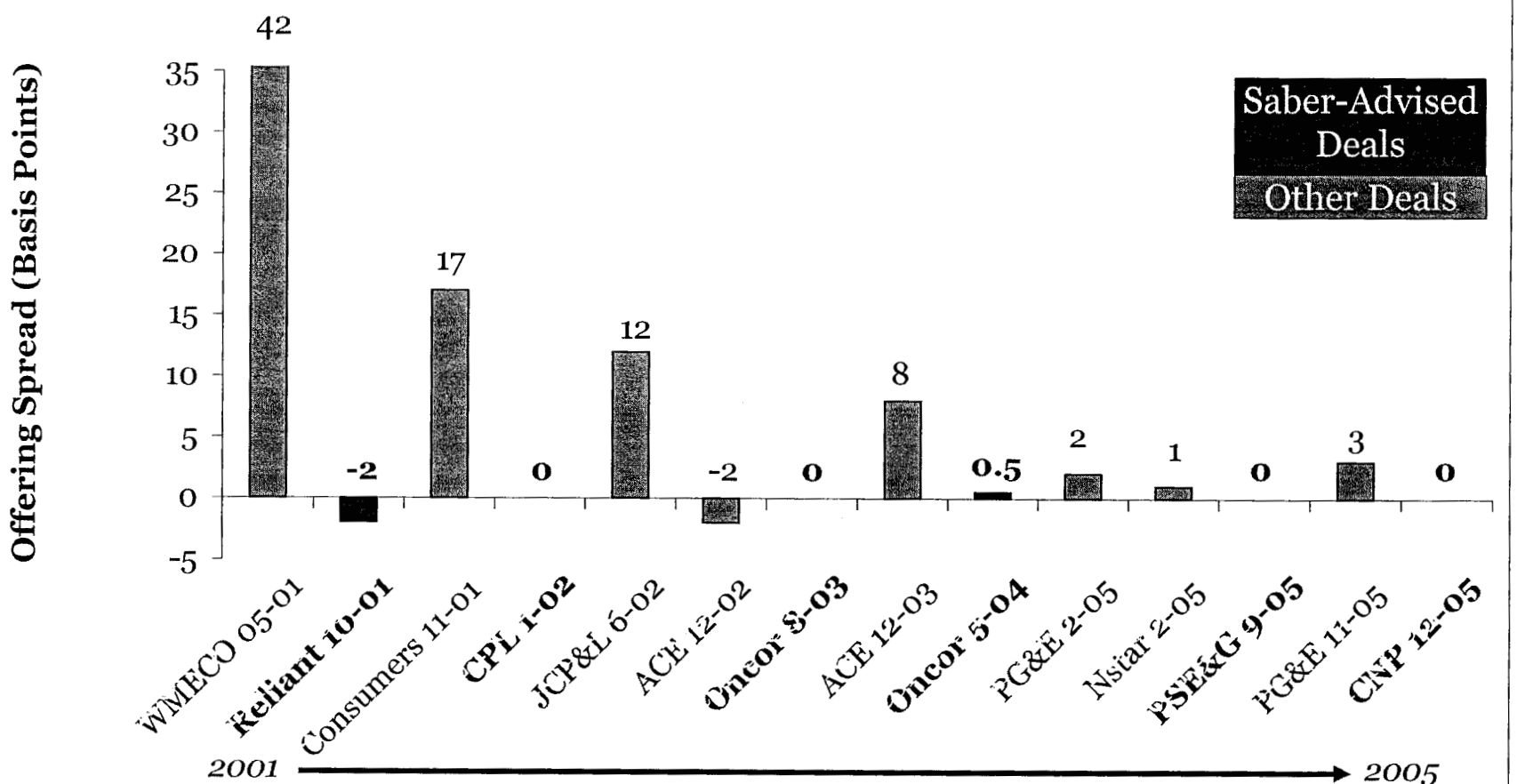
Source: SEC prospectus, Bloomberg.



Source: SEC prospectus, Bloomberg and Citigroup.

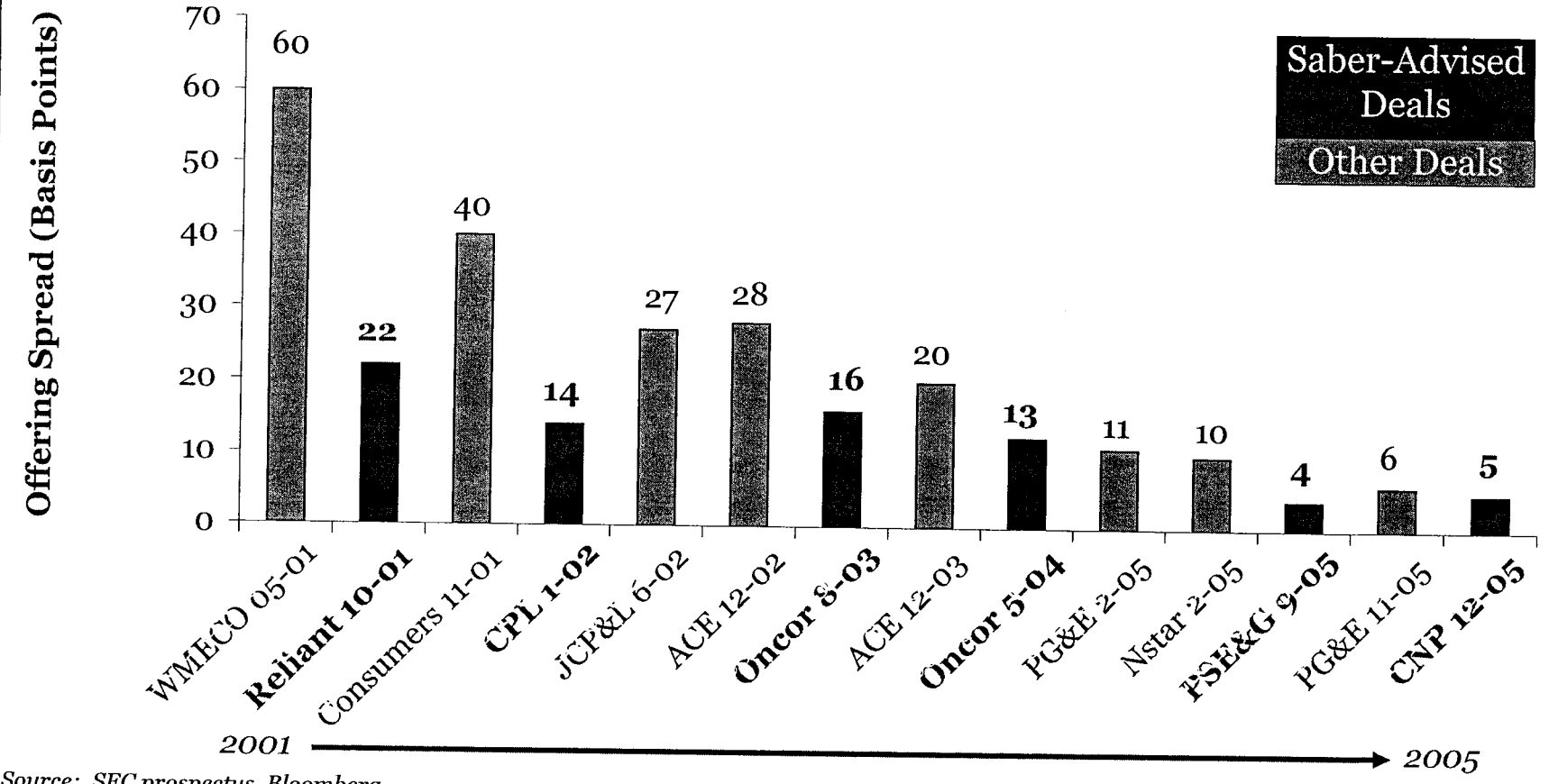

Offering Pricing Spreads to Benchmark Swaps
All Deals Since 2001
5-6 Year WAL
Saber-Advised Deals
Other Deals
Offering Spread (Basis Points)
60
50
40
30
20
10
0
2001
2005
PSE&G 1-01
Detroit 3-01
CL&P 3-01
PSNH 4-01
Reliant 10-01
Consumers 11-01
CPL 1-02
Oncor 8-03
PG&E 2-05
Nstar 2-05
PSE&G 9-05
PG&E 11-05
CNP 12-05
33
37
30
36
26
51
22
17
14
13
11
11
8
Source: SEC prospectus, Bloomberg.

Offering Pricing Spreads to AAA Credit Card ABS
All Deals Since 2001
7-8 Year WAL



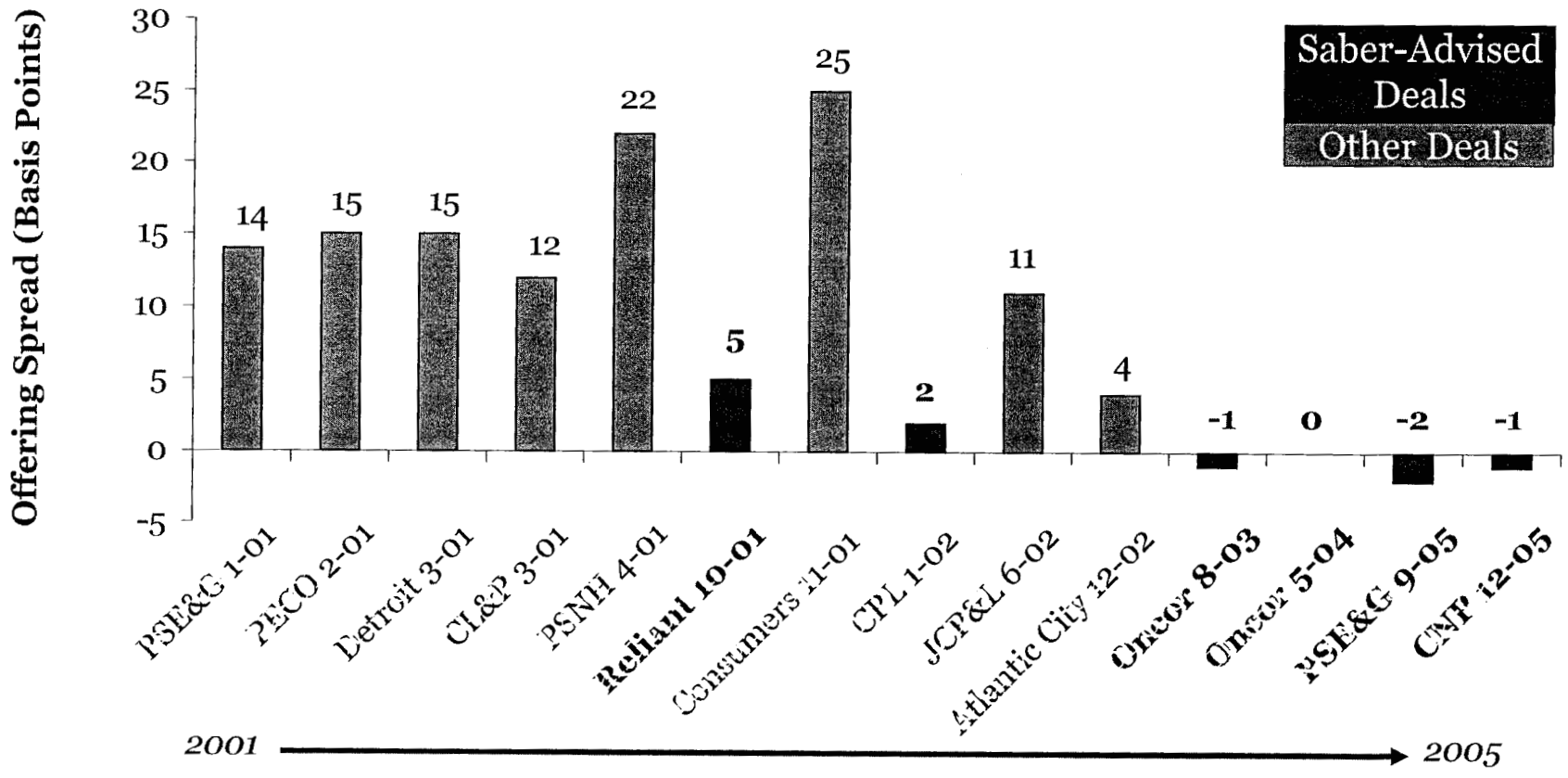
Source: SEC prospectus, Bloomberg and Citigroup.

Offering Pricing Spreads to Benchmark Swaps
All Deals Since 2001
7-8 Year WAL



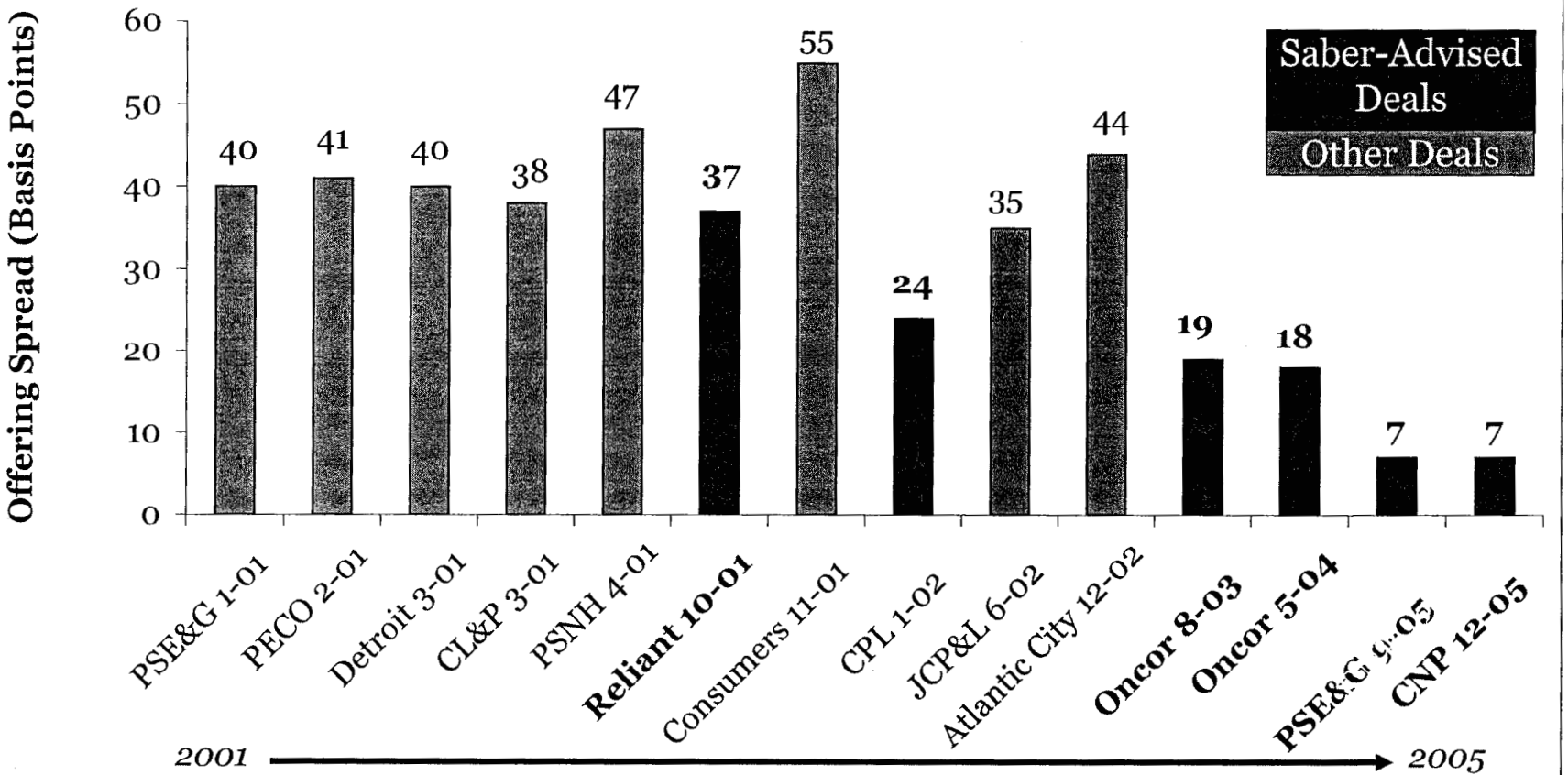
Source: SEC prospectus, Bloomberg.

Offering Pricing Spreads to AAA Credit Card ABS
All Deals Since 2001
9-10 Year WAL



Source: SEC prospectus, Bloomberg and Citigroup.

Offering Pricing Spreads to Benchmark Swaps
All Deals Since 2001
9-10 Year WAL



Source: SEC prospectus, Bloomberg.

Exhibit JSF-7. Press Articles 2002-2005

Reprinted from *Electric Light & Power* website, http://elp.pennnet.com:

Texas utility bond offering sets record low yields, resets market levels for deregulation 'transition' bonds

NEW YORK, NY, Feb 5, 2002 – Texas ratepayers will save over $350 million from the sale on Thursday January 31 by CPL Transition Funding, LLC of approximately $797 million asset-backed bonds, backed by charges on electric bills in the Central Power and Light Company of Texas service territory.

The so-called "stranded cost" or "transition" bonds are part of Texas' electricity deregulation plan enacted in 1999. Goldman Sachs led a team of underwriters that priced and sold the bonds. CPL Transition Funding, LLC, is a wholly owned subsidiary of CPL a subsidiary of NYSE: AEP.

"Texas electric customers are the winners here," said Commissioner Becky Klein of the Public Utility Commission of Texas (PUC) which provided for the transaction in a financing order. "Customers will benefit from a well-crafted electric restructuring plan and the cooperation of utilities and the PUC through its financial advisor, Saber Partners."

"It appears that the CPL bond sale has set a new pricing standard and reset the asset-backed market for transition bonds" said Joseph Fichera, CEO of Saber Partners which is acting as financial advisor to the PUC. Fichera led the PUC's team in negotiations with the underwriters. The extremely low credit spreads (that is, the interest rate premium on the transition bonds that reflects their related credit risk compared with yields on similar risk-free U.S. Treasury securities) indicate that the market is recognizing the underlying value of the transition bond structure as well as the premier strength of the Texas deregulation law and power market environment in particular. These bonds were priced at spreads of from 7 to 34 basis points above the appropriate pricing index. Previously, similar securities have priced at spreads from 9 to 67 basis points. (A basis point is 0.01%.)

Moreover, the CPL bond issue is the first ever electric utility asset-backed bond to price on top of or below the yields on comparable credit card receivable backed bonds, the asset-backed market's "gold standard" or highest quality security. "Goldman Sachs, Bear Stearns, Credit Suisse First Boston, Merrill Lynch and Salomon Smith Barney did an outstanding job educating the market, and the result was landmark pricing," Fichera said.

Under Texas' deregulation law, the PUC was required to achieve the "lowest transition bond charges consistent with market conditions and the terms of the financing order." The proceeds of the bonds will be paid over to CPL who will use them to retire CPL debt and equity. By replacing the more expensive costs of the outstanding debt and equity with these bonds, savings of more than $350 million are created for ratepayer.

The PUC is currently considering a settlement with TXU Electric Company for a similar financing later this year. A previous financing for Reliant Energy was completed in October of 2001.

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Docket No. 060154-EI
Press Articles
Exhibit JSF-7, Page 3 of 14

Asset Securitization report
The Premier Guide to Asset and Mortgage-Backed Securitization

2003 Deal of the Year Award

This year's ASR Awards sum-up

December 1, 2003

Drawing a common theme from worldwide securitization is not an easy task, as each marketplace, at different points of evolution, seems to have its own story.

With that in mind, we present the 2003 Annual ASR Achievements in Securitization Awards, a diverse set of deals, programs and, in a few instances, turnaround stories fueled by securitization, though the underlying transactions themselves may not have seemed particularly innovative. That said, we chose to honor and recognize achievements that captured the true challenges of the market and its participants, as well as the latest advances in design.

ACHIEVEMENTS IN SECURITIZATION
U.S. SECURITIZATION
Oncor Transition Funding LLC
Runner up
Terrapin Funding
Honorable mentions
Turnaround programs for AmeriCredit and Capital One
EUROPEAN SECURITIZATION
RMBS first-loss tranche for DZ Bank
Runner up
ELOC No. 16 for BBC
Honorable Mention
Development of HBOS platform
LATIN AMERICAN SECURITIZATION
Visanet cross-border credit card
Runner up
Development of Colombian MBS program
ACHIEVEMENTS IN INNOVATION
FIN 46 innovators: Bank of America HSBC and Citibank
Runner up
Georgetown Funding

On that front, our U.S. securitization award went to Oncor Transition Funding, the first of many rate reduction deals expected out of Texas. Oncor featured many first-time enhancements, such as performance based underwriting fees.

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."

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

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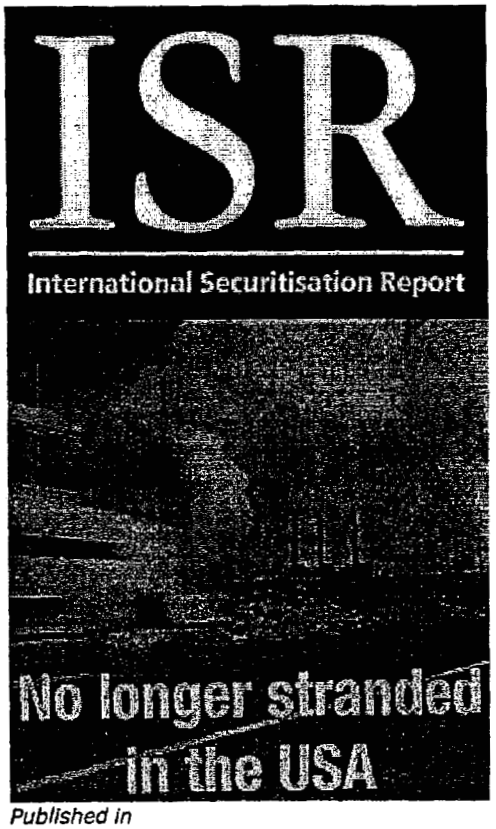


Published in
International Securitization Report
August 2004

No Longer Stranded in the USA

By Nicole Gelinas

US utility companies have been issuing stranded-cost securitisation deals in domestic markets without much fanfare for seven years. But a recent favourable risk weighting ruling handed down by the UK's Financial Services Authority (FSA) at the request of one UK investor in a recent US stranded-cost deal has stoked global interest in the sector. Nicole Gelinas reports from New York.

A recent US stranded-cost transaction that received a favourable risk weighting from the UK's FSA has re-ignited interest in this asset class. The deal involved Texas utility TXU issuing US$790m in medium-term, stranded-cost debt, through special purpose vehicle TXU Electric Delivery Transition Bond Co LLC in May. The debt issuance - TXU's second such securitised deal in a year - was jointly led by Merrill Lynch and Wachovia Securities, and was rated triple-A by both Standard & Poor's (S&P) and Fitch Ratings. Additional underwriters included Banc of America Securities, Bear Stearns, CSFB and MR Beal & Co; advisers **Saber Partners LLC** counselled the Public Utility Commission of Texas (PUCT) on the transaction.

The debt was broken into three tranches: a US$274m, three-year tranche, priced at 3bp over triple-A swaps; a US$224m, seven-year tranche, priced at 11bp over and a US$292m, 10-year tranche, priced at 14bp over.

The TXU deal was not structurally different from a similar US$500m deal the company did just last August - indeed, since November 1997, US utilities have securitised US$30bn in stranded costs across 25 different deals in 10 states, all rated triple-A due to an airtight repeated structure.

The TXU deal, like its predecessors, is backed by a mandatory charge tacked onto consumer utility bills. Some states in the US enacted laws that mandate such charges in the 1990s, in order to pave the way for deregulation of the formerly tightly regulated rate structure of the power sector.

Formerly monopolistic utilities, that had built excess generation capacity prior to deregulation because they were assured of captive markets in their service territories, needed a way to recapture those now "stranded costs" before they could compete with new upstarts which would not have to build such excess capacity. Thus, the state stranded-cost laws allowed politicians to garner the support of powerful utility lobbyists for aggressive state-level deregulation initiatives in the US.

In the case of the Texas deal, the collateralised utility charge, or "transition property," was authorised in an August 2002 financing order issued by the Public Utility Commission of Texas, S&P analysts wrote in an analysis of the deal. The charge backing the TXU collateral is considered particularly strong by raters, as it is backed by a "statutory and irrevocable" restructuring act voted into law by the Texas legislature in 1999 and recently upheld by the State Supreme Court. The State of Texas does not provide an explicit payment guarantee, but the state has pledged not to "alter or impair the transition property," S&P noted - the legal strength of the pledge and the strength of the collateral merits the highest-grade rating.

The transition cost is set to recover the principal, interest and administrative costs of the bonds and relates to

previously agreed-upon costs borne by the utilities for their generation-related assets, S&P said.

"Most importantly," wrote Fitch Ratings analyst Steven Moffitt in that agency's report on the credit, "the act and the financing order require a [tariff] adjustment at least annually through a true-up mechanism to keep principal amortisation and funding of the overcollateralisation account in line with expected balances." Overcollateralisation is equal to 0.5% of the original principal; other credit enhancement includes a capital account also equal to 0.5% of the original principal that was funded at closing.

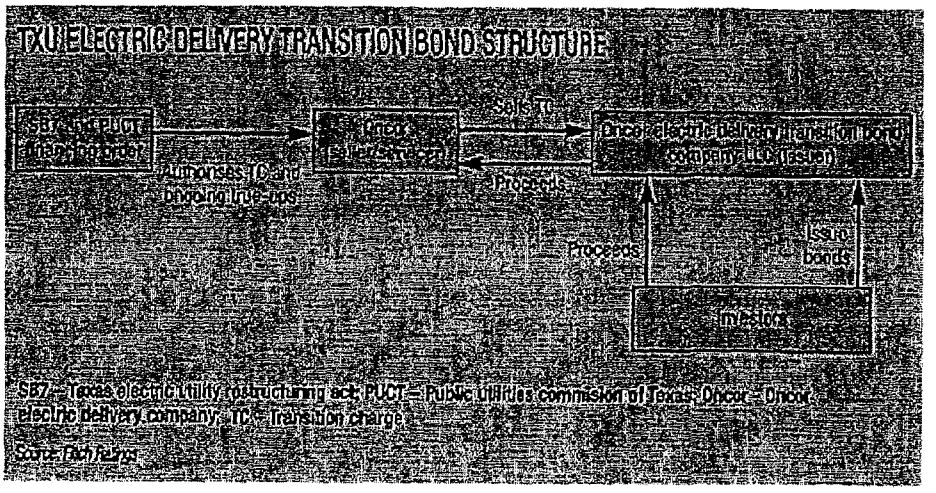
But even with triple-A ratings, strong collateral and good track records, stranded-cost deals always suffered a handicap in Europe. International risk-based capital rules have always assigned US banks a 20% capital risk weighting to all triple-A and double-A rated asset-backed debt in the US, but have assigned a 100% risk weighting to the same securities in the UK and in Europe unless the securities are explicitly guaranteed by the US government or another reputable public-sector entity in the US.

Since deals like TXU are guaranteed by the government's specific regulatory authority, but only indirectly by its taxing authority, it was assumed until this year that they were assigned a 100% risk weighting in Europe, akin more to corporate deals than to high-grade government deals. The difference is important, because 100%-weighted bonds require banks to back their investment with 8% capital, whereas a 20% weighting requires only a 1.6% capital backing (20% x 8.0%).

But all that changed in May, when a UK investor on the TXU deal requested an individual guidance from the FSA on the risk capital, and privately received a 20% risk assignment on the deal. "No one thought this was possible," **Saber Partners chief executive officer, Joseph Fichera,** tells ISR, as high-grade stranded-cost deals have always been assumed in Europe to fall into t he category of riskier-weighted c orporate debt.

"Many bankers skipped their homework and incorrectly compared these bonds to more complex - and lesser quality - securities they trade. But once you strip back the layers, these bonds are among the highest quality, government-supported securities available in the US and international capital markets," Fichera notes.

The 20% ruling significantly improves the return on regulatory capital for Europe-based investors, because it lowers the investors' own cost of funds and thus widens the spread. For example, a US-based bank investing in a triple-A rated deal yielding 4.70% (or 20bp over the 10-year swap curve) with a 20% risk rating would net a 12.5% overall return on regulatory capital, but a UK-based investor forced into a 100% risk weighting could not earn an equivalent return unless that same security yielded 5.5% (or 100bp over the swap curve). Indeed, that UK investor would earn just 2.5%.



"This difference in risk weighting treatment represents a real economic cost for European banks, and has led them

to shy away from investing in US bonds other than taxable municipal bonds," Saber Partners' Fichera says.

Issuers and their financial advisers hope to educate European investors on this new benefit, to capitalise on higher demand on the part of global investors for future stranded-cost deals and achieve the lowest cost of funds possible for the utilities and their customers.

Saber Partners has already won new clients who want to structure similar deals to be sold globally - Saber was hired in April by the State of New Jersey's Board of Public Utilities to arrange bonds backed by special charges on New Jersey's retail power consumers' bills. The bonds will be issued under a New Jersey law similar to that in Texas, which reimburses investor-owned utilities for power costs built during regulation. The bonds will be issued later this year to raise about US$200m.

Fichera notes that, in light of the FSA guidance to that UK investor on the TXU deal, it is "not unrealistic" for other stranded-cost issuers to aim for placement of up to one-third of similarly securitised debt with UK and Continental European investors.

A high level of European interest is expected, because the bonds are not tax-exempt in the US, and thus offer higher yields to investors overall, Fichera notes. Issuers can get away with offerings at low yields in the US because the tax benefits compensate for the lower income, but European investors derive no benefit from that Stateside tax-exempt status on the debt.

European investors have already shown interest in investing the American high-grade municipal market when that debt is taxable and thus higher-yielding. In June 2003, the State of Illinois issued a US$10bn general-obligation taxable bond issue to great European interest; in fact, about 27% of the deal, which garnered a 20% risk weighting due to its high-quality government guarantee, was sold to UK and Continental European investors.

But it may take aggressive international marketing to make the benefits of stranded-cost deals clear to potential investors in Europe, as this is currently an inefficient market.

Stepped-European investment in stranded-cost deals will feed off itself. More investors in stranded cost deals worldwide will improve liquidity in the secondary market, and thus create a more robust, transparent trading market for the overall sector between large-scale issues. While no US utility has yet issued a euro tranche, Fichera notes that euro-denominated facilities are certainly possible if demand warrants such a structure.

Other states are also looking to capitalise on this projected new demand. In Texas, utilities, Centerpoint and AEP are planning deals, although amounts aren't yet decided. Additional issuers in the pipeline include utilities operating in the states of California (US$3bn); Wisconsin (US$500m); Michigan (US$500m) and Vermont (US$200m).

Risks to the collection of the collateral are minimal, since the collections are spread over millions of customer accounts and are government-mandated. However, one potential risk is that of voter referendum or petition right on the part of citizens - as S&P noted in its legal analysis of the TXU deal, that particular deal is strong partly because "citizens of Texas do not have referendum rights or initiative petition rights regarding laws adopted by Texas".

But even in states with strong histories of referendums and voter revolts, the risk of a reversal of a statutory state charge on a power bill is considered very low; proof of that is found in the fact that deals in California, with a very high level of voter initiative, have also been awarded the triple-A rating and have performed well thus far.

"Legislation enacted to recover stranded-costs is separate from the routine budgetary appropriation process," S&P analyst Weili Chen, who covered the TXU deal, told ISR in July. Indeed, the history of the asset class shows it to be a strong one, as early issuers have a robust history of paying their obligations without hiccups even during the post-deregulatory turmoil that has plagued the US power sector over the past four years. In addition, the legislation in each state "is meant to create a property right" according to Chen.

The US Constitution provides for the enforcement of contracts between parties, including when one party is a US state, Fichera adds. Thus, the risk of a state re-appropriation of the right to charge utility users for stranded-cost reimbursement is quite low under US law.

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July 6, 2005

Published in Bloomberg News / BusinessWire

Increasing Investor Demand for Utility Ratepayer-Backed Bonds Prompted by Bond Market Credit Concerns

Special Topic at Industry Meeting in September

(New York, New York) Investors are increasingly bidding for utility ratepayer-backed bonds to provide superior safety, stability and diversification for their portfolios. Described as a "super-corporate" security with an airtight government guarantee, according to one mid-west insurance company portfolio manager, and amid unprecedented credit concerns in the bond market, investors managing corporate and ABS portfolios are turning to this $33 billion market. Utility ratepayer-backed bonds have also been referred to as rate reduction, stranded cost, utility fee, hurricane recovery, environmental trust and transition bonds.

Within the last 6 months, more state legislatures (such as West Virginia (Allegheny Energy NYSE:AYE), Florida (FPL NYSE:FPL and Progress Energy NYSE:PGN) and Idaho (Avista NYSE:AVI, Idaho Power) have approved the issuance of this new breed of bonds -- one with a special government guarantee of regulatory action to prevent any credit problems -- to protect constituents from higher energy bills. This followed Wisconsin's (Wisconsin Energy Corp. NYSE: WEC) adoption of similar legislation in 2004. A special panel of industry experts, led by **Saber Partners, LLC** CEO **Joseph Fichera** will discuss these and other developments at the upcoming **ABS EAST** Conference in September.

Negative Credit Events Throughout Bond Market Except in Ratepayer-Backed Bonds

High-grade bond portfolios have been hurt from more than a half a trillion dollars of AAA/AA corporate bonds that have been downgraded since 2000 in almost all sectors. Nomura Securities recently reported that the only class of securities to have zero credit events has been utility ratepayer-backed bonds â€" neither utility first mortgage bonds, nor drug companies, nor credit cards, nor student loan bonds can boast of such a record.

Secondary Market Pricing Improves Significantly - - - On Top of Cards

Now, for the first time, major secondary market asset-backed bond dealers are quoting 5-year and longer utility ratepayer-backed bonds at levels the same as top tier credit card bonds, traditionally considered the â€œgold standardâ€ of the ABS market. This means that new utility ratepayer-backed bond issues, even those not from Texas (CenterPoint Energy NYSE:CNP) who always have traded on top of credit cards as new issues and below secondary levels, are likely to price through this barrier. In fact, according to some observers, competition for ratepayer-backed bonds could drive yields closer in line with the bond's inherent relative credit value and through Federal agencies or in line with high-grade corporate bonds like Johnson & Johnson.

New Legislative Developments To Spur Supply

Four new state legislatures have authorized this type of financing for their utilities, and more are likely to follow. What are the risks and rewards for this re-emerging asset class? IMN Conferences has Page 2 of 2 6-Jul-05

assembled an exceptional top-tier array of issuers, bankers, regulators and lawyers to discuss the subject at the ABS EAST conference in Boca Raton in September.

Conference Agenda September 16 2005

A RE-EMERGING ASSET: UTILITY RATEPAYER-BACKED BONDS, NEW STATES AND NEW OPPORTUNITIES

- How Should Relative Value Comparisons Be Made In Deciding To Upgrade A Portfolio To Include Ratepayer-Backed Bonds? What Are The Credit Considerations?
- When Will Ratepayer-Backed Bonds Surpass Credit Cards As The ABS Market Benchmark For Highest Safety, Security And Value?
- Is There An Appropriate Tiering Among These Types Of Bonds? Are These Super-Corporate Securities And Not Just ABS?
- What Are The UK Basel Accord Risk Weighting Advantages Of Ratepayer-Backed Bonds?
- How Will Legislative Developments In Wisconsin (Wisconsin, Florida, West Virginia, Idaho Expanding The Use Of Proceeds (i.e., No Longer Limited To Electricity Deregulation) Affect The Growth Of The Market?
- Will The Tax Law Limit Ratepayer-Backed Bonds To Recovery Of "Stranded Costs" In Connection With Electricity Deregulation?
- What Is The Outlook For New Issue Supply, Liquidity And Credit?

Session Facilitator:

Joseph S. Fichera, Chief Executive Officer, SABER PARTNERS, LLC

Panelists:

- Jay Kim, Director, BARCLAYS CAPITAL
- Marc Kilbride, Treasurer, CENTERPOINT ENERGY HOUSTON CORP (NYSE:CNP)
- Wayne Olson, Managing Director, CREDIT SUISSE FIRST BOSTON
- Becky Klein, LOEFFLER GROUP, (Former Chair) PUBLIC UTILITY COMMISSION OF TEXAS
- Jay H. Eisbruck, Team Managing Director, MOODY'S INVESTORS SERVICE
- Fred Gryglel, Former Chief Economist, NEW JERSEY BOARD OF PUBLIC UTILITIES
- Dean E. Criddle, Partner-Tax, ORRICK, HERRINGTON & SUTCLIFFE LLP

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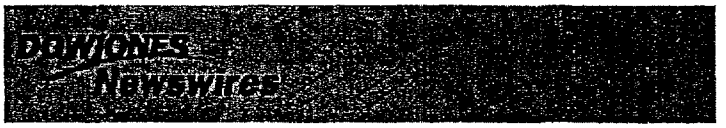

CenterPoint Energy Expands Mkt For Utility Tariff Bonds

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By Allison Bisbey Colter
Of DOW JONES NEWSWIRES
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NEW YORK (Dow Jones) — A $1.85 billion utility fee securitization from CenterPoint Energy (CNP) attracted a number of first-time investors in the U.S. and abroad, pointing to a much broader market for these securities.

The offering, which was sold Friday in five tranches, is part of a plan to finance the deregulation of Texas' electricity market, which began in 2002. It is backed by a special charge levied on retail customers in the Houston utility's 5,000 mile service area, which has approximately 1.9 million customers representing about 20% of the entire Texas electricity market.

But other Texas utilities such as American Electric Power (AEP) and Texas New Mexico Power could issue similar bonds late next year if the state approves pending applications.

"The offering is expanding the investor base for these types of securities and will benefit similar utilities and their ratepayers in other states," Joseph Fichera, chief executive of Saber Partners and the financial adviser to the Texas Commission, said in a statement Monday.

Like many utility tariff bonds, CenterPoint's latest offering has a credit enhancement feature known as a "true-up" mechanism. This means that if fee revenue falls because customers leave the service area, CenterPoint can raise the tariff on the remaining customers to make up for the shortfall, thus ensuring timely interest and principal payments to bondholders.

But Centerpoint marketed the bond as being even less risky than similar offerings. For one thing, the utility has the ability to adjust the fee as often as every six months, which the prospectus says is more frequent than true-up mechanisms on similar bonds.

And according to the prospectus, customers are required to make the payments even if they elect to purchase electricity from another supplier or generate their own power, or if the CenterPoint goes out of business and its service area is acquired by another utility.

"Credit risk, for all practical purposes, is effectively eliminated," Albert Yoshimura, a managing director at joint bookrunner RBS Greenwich, said in the video presentation that was part of the offering's virtual roadshow.

And unlike similar offerings, CenterPoint's utility tariff bond was assigned a 20% risk weighting by the U.K. Financial Services Authority, according to the prospectus. That's the same risk weighting assigned to debt issued by U.S. housing agencies Fannie Mae (FNM), Freddie Mac (FRE) and the Federal Home Loan Banking System. All three benefit from an implicit government guarantee, since many investors assume that Uncle Sam would make good on their debt in the event of default.

That risk weighting was key to the offering's appeal to overseas investors, according to a person familiar with the transaction, who said the deal attracted over $1 billion in orders from Europe alone. Among other first-time investors in utility fee bonds was an Asian central bank as well as a major U.S. investor that bid for an entire tranche, this person said.

As a result, CenterPoint was able to upsize the offering from an original $1.25 billion and price it at much tighter spreads than similar deals. The $250 million two-year A1 tranche was sold at spread of 4.75 basis points under London inter-bank offer rate, or 42 basis points over Treasurys. That compares favorably with spreads on two-year utility tariff

bonds in the secondary market, which have been indicated at around 3.0 basis points under Libor.

But it's still a far cry from the agency market, where Fannie's most recent two-year benchmark note was trading at 28 basis points over Treasurys Monday.

The $368 million five-year tranche was priced flat to Libor, the $252 million 7.5-year tranche at a spread of 5 basis points over Libor, the $519 million 10-year tranche at a spread of 7 basis points over Libor and the $462 million 13-year tranche at a spread of 13.5 basis points over Libor.

Fichera said the state of Wisconsin is considering a similar bond offering for its utilities to finance "environmental costs" that could come in the first half of 2006. He said a similar bond is being considered in West Virginia and Florida.

Saber Partners is a finanical adviser to the Wisconsin and Florida Commissions.

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CenterPoint Energy Transition Funding II sold $1.85 billion of bonds in 5 tranches on Friday at credit spread levels lower than any comparable transaction from any other utility. The offering significantly expanded the investor base for this type of security. The issuer is a finance subsidiary of CenterPoint Energy Houston (NYSE: CNP) an electric transmission and distribution utility in Texas. The triple-A bonds are backed by a special charge on all retail electric customers in the CenterPoint Energy Houston service territory. It is guaranteed by law and by the State of Texas' Public Utility Commission to be always adjusted to whatever level is necessary to repay the bonds.

"Competition lowers costs in any market and the pricing of these bonds benefited from competition from investors across the globe," said Barry Smitherman a member of the Texas Commission. "For the first time ever, investors from Asia to Ireland invested in this sector as well as major US institutions. Almost $1 billion in orders were received from Europe as a result of the bonds receiving a 20% international risk weighting from UK regulators. U.S. agency buyers, insurance companies, corporate investors and even asset backed investors also purchased the bonds with this unique and strong credit."

The bond's credit spreads, the amount in basis points (1/100 of a per cent) above a benchmark credit index, are lower than any other similar triple-A utility bond offering of size from any other state since 2001. The $250 million 2-year tranche were sold at a spread of 4.75 basis points below the benchmark LIBOR swap index to yield 4.841%, $368 million 5-year bonds were on top of the index, or 4.977%, $252 million 7.5-year bonds at plus 5 basis points or 5.089%, $519 million 10-year at plus 7 basis points or 5.172% and $462 million 13-year bonds at plus 13.5 basis points to the index or 5.302%.

The offering is part of the State of Texas' plan to finance the transition to a competitive retail electric market in Texas which began in 2002. The financing method and interest rates achieved will reduce the special charge to CenterPoint territory retail electric customers by more than $963 million. Other Texas utilities such as American Electric Power (NYSE:AEP) and Texas New Mexico Power could issue similar bonds late next year if the State approves pending applications. There is also the possibility of additional legislative authorizations for CenterPoint and others. All of which would add several billion dollars more to issuance of these bonds from Texas.

"This offering is expanding the investor base or these type of securities and will benefit utilities and their ratepayers in Texas and other states," said Joseph Fichera CEO of Saber Partners and financial advisor to the Texas Commission. "Wisconsin, West Virginia and Florida are considering similar bond offerings for their utilities for environmental costs in Wisconsin and West Virginia and hurricane damage recovery in Florida. The market can expect the next issue to likely come from Wisconsin in the first half of 2006."

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I HEREBY CERTIFY that one correct copy of the DIRECT TESTIMONY AND EXHIBITS OF JOSEPH S. FICHERA, has been served by U.S. Mail to R. Wade Litchfield, Esq. at 700 Universe Blvd., Juno Beach, Florida 33408-0420 on behalf of Florida Power & Light Company, and that a true copy thereof has been furnished to the following by U.S. Mail this 31st day of March, 2006:

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