BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 060038-EI
FLORIDA POWER & LIGHT COMPANY

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

APRIL 10, 2006

REBUTTAL TESTIMONY & EXHIBITS OF:

WAYNE OLSON

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Wayne Olson. My business address is 11 Madison Avenue, New York, New York.

Q. Did you previously submit direct testimony in this proceeding?

A. Yes.

Q. Are you sponsoring an exhibit to your rebuttal testimony?

A. Yes. I am sponsoring an exhibit, which consists of Document Nos. WO-12 and WO-13 attached to this rebuttal testimony.

Q. What is the purpose of your rebuttal testimony?

A. My testimony responds to points raised by Staff Witnesses Fichera, Klein and Noel. Rate reduction bond ("RRB") markets have become very efficient over time and new issue pricing has less risk and reward than it used to. With respect to the bond issuance process, I note that there is continuing experimentation in the market in this regard, with a menu of available options. In an era of tightened spreads and increased market liquidity, it is less likely that the incremental costs and additional time associated with the activist

approach will be justified. I will then present what I consider the essential elements of a successful, cost effective issuance process and discuss various aspects of the issuance process in some detail. I conclude with some observations about the exposure of issuers and their control persons to liability under the securities laws and about the investment characteristics of rate reduction bonds.

II. CURRENT MARKET AND HISTORICAL TRENDS

Q. Please recapitulate briefly from your direct testimony some key elements of the market environment for storm recovery bonds.

A. Storm recovery bonds ("SRBs") are one of a class of securities generically known as rate reduction bonds ("RRBs"), and referred to in Mr. Fichera's testimony as ratepayer-backed bonds. They have historically been considered a type of asset-backed security ("ABS") although they have characteristics of corporate and public-sector securities as well. ABS are traded at interest yields that are quoted in terms of their "spread to swaps," that is, the differential between the ABS yield and the yield on interest rate swaps of comparable average life. Spreads are measured in basis points. A basis point is 1/100 of a percentage point, equal to the difference, for example, between 4.51% and 4.50%.

Q. Mr. Noel's Exhibit MLN-2 reviews some history of the RRB market and reaches a conclusion that, during the period from mid-2000 to mid-2004, the services of Saber Partners as financial advisor on a new issue of RRBs

was worth somewhere in the range of 15 to 20 basis points of yield on a 10-year bond. What is your view of this study?

A. I think it has little relevance to the issues facing the parties to this docket, because market conditions have changed considerably since the study was performed, rendering the conclusions not meaningful for predicting results in today's markets.

Q. Can you elaborate?

A. The study hearkens back to a time when spreads in the high-grade capital markets were much higher, more volatile and less predictable than they are today. For example, from 2000 to 2003, spreads on the 10-year RRBs bounced back and forth between 30 and 50 basis points over the 10-year swap rate, then dropped throughout 2003 and into 2004. In contrast, since mid 2004, spreads on RRBs have been steadily grinding tighter and tighter with very little volatility. Similar patterns have occurred in the markets for other asset backed securities and for high-grade utility bonds.

Document No. WO-12 provides a graphic depiction of these phenomena. The first page of the document shows RRB spreads to swaps for 2, 5, 7 and 10 year bonds from late 2000 to the present. The second page shows spreads to Treasuries for a 7-10 year "A" utility bond index, 10-year RRBs, 10-year fixed-rate credit card securities and 10-year swaps over the same timeframe. I think they demonstrate vividly that the first six years of this decade have been a "tale of two markets." There was considerably more risk and reward for

issuers in the highly volatile market of 2000-2003 than in the lower rate, less volatile environment of 2004 to today.

Q. How has this dramatic change in market environment affected the differentials between Saber-advised and non-Saber-advised deals that were discussed in Exhibit MLN-2?

A. Document No. WO-13 is intended to re-produce the graphs that were presented in Exhibit MLN-2, except that the time period under study is not 2000-2004 but 2004-2006. During this recent timeframe, there were six public rate reduction bond offerings, three of which involved Saber as an advisor and three of which did not. The results for issuers appear to be random, as between the two sets of offerings. Some were a little better or worse than others, but not by much. In general these graphs show no particular pattern. They depict a liquid, efficient market where the risks and rewards for issuers are much lower.

Q. What other trends are there that might be relevant to storm recovery bonds?

A. In the past two years, high-grade credit spreads have become tighter in most sectors and the differential between tiers of credit has narrowed considerably. This trend has been noted with concern from the Fed, as it implies that lenders are receiving less and less return for taking credit risk.

In the same period of time, ABS have gone from being one sector out of many to being the largest single sector of the U.S. debt capital markets other than

Treasuries and agencies. Last year, there were about $1.2 trillion in new issuance of term ABS and approximately $900 billion in asset-backed commercial paper outstanding. This compares with $675 billion in new issuance of high-grade corporate term debt and $125 billion of corporate commercial paper in 2005. In other words, ABS accounted for over $2 trillion in financings, while high-grade corporate securities were less than $1 trillion.

This dominant position of the ABS market for the past two years has been associated with a dramatic tightening of ABS spreads and an increase in market liquidity. RRBs have been part of this trend.

Q. What do you conclude regarding Exhibit MLN-2 attached to Mr. Noel's testimony?

A. From the data in Document No. WO-13, it is difficult to detect any systematic difference in new-issue pricing performance between Saber-advised and non-Saber advised deals in the past two years. What it does tend to show is that, as noted by Mr. Fichera in his testimony, "[p]ast performance is not a guarantee of future results. The process must adapt to changing market conditions."

Q. Exhibit JSF-5 to Mr. Fichera's testimony contains a graph attributed to Lehman Brothers and a table attributed to your firm. What significance do you think these have?

A. With respect to the Lehman Brothers graph, I agree with Mr. Fichera's statement that fixed-rate credit card securities ("fixed-rate cards") are a good

comparison for RRBs, as they tend to be the lowest-yielding asset class (other than RRBs) in the ABS universe. The graph shows that, as ABS credit spreads in general have tightened over time, RRB credit spreads have tightened relative to fixed-rate cards, to the point where the two currently trade very close to one another. Focusing on the 9-10 year WAL (weighted-average life) portion of the graph, it reflects the fact that RRBs, which were first introduced in 1997, have matured as an asset class to the point that they are as familiar a commodity as credit card securitizations, which were first introduced about ten years earlier.

The Credit Suisse table cited by Mr. Fichera does not demonstrate a difference between Saber-advised and non-Saber-advised issues, in terms of their new-issue pricing performance relative to fixed-rate cards, in the market environment of the past two years.

III. ISSUANCE PROCESS

A. Alternative Approaches

Q. Has there been an evolution in the rate reduction bond market with respect to Commission Staff involvement in the issuance process?

A. Rather than an evolution, I would say that there has been experimentation with different approaches to the issue of regulatory involvement in the issuance process.

Q. Does it follow that the most recent transactions from Texas and New Jersey are "state of the art"?

A. Not necessarily. In 2005 alone, there were several different approaches, like a "menu" of options.

For example, the NSTAR transaction in Massachusetts on February 15, 2005 used a "conduit" municipal issuance vehicle. California had previously used this method but more recently, in the PG&E transactions on February 3, 2005 and November 3, 2005, California used a "Bond Team" consisting of the Commission's general counsel, the director of the energy division, other Commission staff, outside bond counsel and an independent financial advisor to oversee the process. New Jersey (PSE&G, September 9, 2005) used a designated Commission representative with an independent financial advisor. In Texas (CenterPoint, December 16, 2005), the Commission acted through its financial advisor, which acted as co-equal decision-maker with the utility and was vested with veto power.

Q. Have there been further developments since the conclusion of the 2005 transactions you just referenced?

A. Yes. Even after their 2005 transactions, both the Texas and New Jersey Commissions continue to reconsider and experiment with their review processes. The New Jersey Board of Public Utilities experimented with the Saber-recommended process on one small transaction in 2005, but for its upcoming transaction it reverted to the financial advisor that it had employed

in prior transactions. The Texas Commission, in an open meeting on February 23, 2006 regarding the application of AEP Texas Central for a financing order, authorized its executive director to hire Saber Partners as financial advisor on that upcoming transaction at fees capped at $500,000 (including $100,000 for legal expenses), an amount equal to roughly half of that paid in the 2005 Texas securitization transaction and a third of that paid in the 2004 transaction. The scope of services for this upcoming Texas transaction is not yet determined, to my knowledge.

Q. Do you think it is possible for the issuance process for rate reduction bonds to be a collaborative one between the utility and the Commission, while enabling each to fulfill its responsibilities with respect to the transaction?

A. Yes.

Q. What do you think are the essential elements of a collaborative securitization process?

A. The essential elements of a collaborative securitization process can be thought of in roughly chronological order. In describing these, I will use the term "bond team" as a generic term to refer to the Commission and/or Staff personnel assigned to the task plus their outside legal and financial advisors and the "working group" to refer collectively to the bond team plus the utility, the underwriters and their respective counsel. I believe the essential elements are as follows:

1. Early agreement among the working group on a transaction timeline, the tasks to be completed and the checkpoints along the way.

2. Working group review and discussion of operative documents, offering documents, sales presentation materials (which may be considered offering documents) and a marketing plan. Forms of legal opinions should be circulated among the working group as they are developed, although this may be later in the process.

3. Regularly scheduled conference calls of the working group to discuss the progress of the execution of the marketing plan, next action items and any other issues as they arise. It may be advisable to circulate agendas prior to the calls and to keep minutes, to assure transparency.

4. Review of pricing indications before they are communicated to the market. To facilitate this review, the financial advisor or the underwriters should prepare and distribute a "pricing book" documenting market conditions relevant to the pricing discussion. Additionally, the utility should prepare a pro forma issuance advice letter for review by the bond team. The book-building progress should be discussed with the working group at frequent intervals.

5. Any approvals required for closing, other than ministerial items, should be delivered at or before pricing.

6. Post-closing review of the upfront bond issuance costs, such as legal fees and printing costs, as provided by the Florida statute. This may involve fact-gathering during the issuance process, to facilitate the review.

B. Saber Scope of Services and "Best Practices"

Q. Are you familiar with the scope of services provided by Saber Partners in some of the prior Texas transactions?

A. Yes. I was involved in all but one of the Texas transactions.

Q. What aspects of that scope of services would you like to bring to the attention of the Florida Public Services Commission (the "Commission")?

A. For convenience, I will organize my response by reference to Mr. Fichera's Exhibit JSF-1.

In Exhibit JSF-1, the "General Duties of the Financial Advisor" strike me as statutory duties of the Texas commission itself. This Commission will need to determine the extent to which it can and should fulfill its statutory duties acting through an outside consultant.

Under "Specific Duties of the Financial Advisor," Saber had the duty "to veto any proposal that does not comply...." I would have expected a consultant to advise Staff of its concerns about a particular issue and Staff to discuss them with the utility, not for the consultant to exercise veto power over the conduct of the deal. Additionally, Saber had up to two business days *following* the pricing to give notice of non-compliance, which effectively gave Saber a veto power *after* the bonds have already been sold. In my opinion, the ability to veto a transaction which has already been priced and confirmed with investors is an extraordinary power which should not be vested in an outside financial advisor, if it is to be used at all. For reasons that I discuss more fully below, I believe that all required approvals should be delivered at or before pricing. Post-pricing disapproval could have had significant adverse effects on customers' long-term interests.

Under "General Authority of the Financial Advisor," Saber had "authority to participate fully and in advance in all aspects...including all plans and decisions related to the pricing, marketing and structuring of the transition bonds." I think a review process can be successfully conducted through a systematic process involving regular update calls, detailed briefings and other information requested by Staff without involving Staff's outside consultant in every meeting, phone call, plan, detail and decision.

Saber had "equal rights with the utility" and "decision-making authority co-equal with the utility with respect to the structuring and pricing of the bonds. Thus, all matters relating to the structuring and pricing of the transition bonds [had to] be decided jointly by the utility and the Commission's Financial Advisor." In my experience, co-equal decision-making is a process that is likely to produce friction and inefficiency, where one of the co-equal decision makers bears significantly more of the direct costs, opportunity costs and legal risks (including securities law liability) than the other.

Q. Are these observations relative to Exhibit JSF-1 equally applicable to the corresponding points in the discussion of "best practices" on pages 47-51 of Mr. Fichera's testimony?

A. Yes. Mr. Fichera's proposed "best practices" are consistent with his work on the Texas transactions.

C. Incentives and Dynamics of the Issuance Process

Q. Mr. Fichera has raised some concerns about the incentives of the participants in the issuance process. What is your view of the incentive structure of rate reduction bond transactions?

A. The utility has an incentive to achieve lowest yield on the RRBs, not because of a direct economic impact, but because it will want to maintain the relative value spread between its triple-A RRBs and its lower-rated debt securities. However, as with any issuer, the drive for lowest interest rate will be constrained by time, expense and the ultimate uncertainty of the marketplace.

The underwriter has an incentive to achieve the lowest yield on the RRBs, not only because of the usual desire to put itself in a position to do future business with the parties and other state commissions or utilities, but also because of the need to enhance the value (or avoid reducing the value) of its trading inventory. Underwriters who have significant secondary market positions in ABS have a powerful incentive to be disciplined in the pricing of new issues. For example, Credit Suisse's inventory of ABS averages about $1.25 billion at any given time. Spread risk is generally not hedgeable. If spreads widen on new issues, the firm's profit on the inventory it holds tends to shrink or become negative.

The Commission has an incentive to achieve lowest yield on the RRBs for the benefit of customers, balanced against the interests of customers and the utility in seeing the transaction done expeditiously and efficiently.

The financial advisor to the Commission, like the underwriters, has the incentive to achieve the lowest possible cost of funds at the time of pricing in order to enhance its opportunity for future business. Unlike the utility, however this goal is not constrained by any limits on time and expense, because these are at the cost of the utility or the customers and do not show up in pricing spreads. If given control over the process, whether directly or indirectly, the financial advisor can zealously pursue its goal without taking

into account these other important considerations. Additionally, the advisor has little incentive to be sensitive to the utility's exposure to incremental legal risks, because these have no adverse impact on the advisor and may have a positive impact on pricing spreads. Unlike the Commission, the advisor has no duty to consider any interests of the utility.

Q. Does this incentive structure lead to a collaborative and collegial process when the Commission vests negotiating authority and veto power in the financial advisor?

A. Not in my experience. I have found that the process in such cases is adversarial by nature, regardless of the good will of the parties. I don't see how it could be otherwise, given the incentive structure. The requirement for "consensus" as a practical matter requires unanimity on every decision. However, the parties are naturally at odds on almost every decision as to how much time and expense to incur in the marketing of the bonds, how much risk to assume in the way that the offering documents are drafted, and when to price. The financial advisor under such a framework has little incentive to spare any expense of time or resources or to consider any legal risk on the part of the utility.

Q. Do you think the dispute resolution process proposed by Mr. Fichera would solve the problem of such disagreements?

A. I don't know whether this would work in practice. The issuance of securities is a complex process with a myriad of details to be attended to and many points of decision making along the way. With an asymmetrical incentive

structure, the points of contention may be too numerous to be resolved through such a process. However, if such a process is implemented, I would recommend that if Staff and its financial advisor have a "difference of professional opinion" about something, they should resolve it among themselves, such that any presentation to the Commission would be solely by Staff and FPL.

Q. What would tend to make the process more collaborative and collegial?

A. I think two items would be beneficial toward this end. The first would be to make the roles clear such that ultimate authority for decisions and responsibility for the process is clearly vested in one party or the other. The second would be direct and active exercise by Staff of its role, rather than effectively vesting it in an outside financial advisor.

Q. Can you give an example of how collegiality can break down among persons of good will, given the incentive structure?

A. The divergence of incentives is quite pronounced when issues arise relative to the prospectus and the internet road show (which is considered a "free-writing" prospectus under federal securities regulations that become effective on December 1, 2005). The financial advisor's incentive is to induce the issuer (by indicating a willingness to veto the transaction) to make aggressive statements containing positive disclosure regarding the investment merits of the bonds. This incentive is not counterbalanced by sharing the issuer's liability for possible violation of federal securities laws. The utility's view of such language, in contrast, will be strongly impacted by this counterbalancing

concern, because such statements may result in securities law liability on the issuer and the utility.

Under the federal securities laws, positive disclosure requires careful drafting and close scrutiny of each statement, not only to verify its truth, but to make sure that nothing is said or implied that could potentially be construed after the fact as misleading to investors, even if unintentionally. However, careful wording necessarily reduces the impact of the statements, so these two positions are directly at odds in ways that can be irreconcilable. When two co-equal decision makers approach the drafting of the prospectus and the internet road show with these divergent incentives, legal costs mount up, time frames extend and the atmosphere becomes non-collegial.

D. Certification as to Lowest Cost of Funds

Q. Do you think it is appropriate to require certifications that lowest cost of funds has, in fact, been achieved?

A. No. Certifications ought to relate to facts that are knowable. While it may be possible to certify what steps were taken in the pursuit of the lowest cost of funds, it is not knowable whether the lowest cost of funds has been achieved.

Q. Why do you say that it is not knowable whether lowest cost of funds has in fact been achieved in any particular situation?

A. I do not know anyone who can say for sure when he or she has gotten top dollar when selling or rock bottom when buying, no matter how diligently

they have strived for this goal. This is true because price discovery costs time and money; there is always one more possible buyer or seller that could be pursued, and the market itself does not stand still but is in constant motion over time.

For example, a person buying or selling a car might use internet services, newspaper advertisements and/or visits to local car dealers to obtain a series of bids or offers for the vehicle. No one will ever know for sure whether a better bid or offer could have been obtained if they had used other websites, tried other newspapers or visited dealers in a more distant market area.

Q. Why not require certifications regarding lowest cost of funds, even though it's not literally knowable, in order to motivate the highest possible standard of care?

A. Anyone agreeing to give such a certification is in a difficult position. Since it is not possible to determine whether absolute lowest cost of funds has been achieved in any particular situation, each party giving such a certification, including the commission's financial advisor, will tend to go to extraordinary lengths, not necessarily to achieve lowest cost, but rather to satisfy itself that someone else could not argue that lowest cost of funds was ***not*** achieved.

Q. Why is this undesirable?

A. This will tend to lead to higher issuance costs, longer delays in the transactions and heavier demands on the personnel of the utility. To the extent that any trade-offs might be desirable between cost of funds and any

other considerations, the absolute lowest cost of funds standard would not permit anyone with liability to make such a judgment call. For example, while there is a public interest in seeing the utility complete its financing, replenish its storm reserve for the 2006 hurricane season and get on with the normal task of providing electricity to customers, such a concern is not permitted to enter the equation of "lowest cost of funds."

If there is a perceived misalignment of incentives, I think the desired result should be to motivate the utility and the underwriters to exert the same standard of care and diligence that they would if the utility were transacting for its own account. Since an absolute standard implies that they must literally leave no stone unturned, it will induce them to go on turning over stones even after the point where, under ordinary circumstances and dealing for their own account, they would have judged the law of diminishing returns to have set in.

Q. Do you think that a "lowest cost of funds" standard is necessary to assure a fair market price for customers?

A. No. There are at least three reasons.

First, the Commission's financial advisor is thoroughly familiar with rate reduction bond transactions and is able to advise the staff when a suggested pricing level would represent a fair deal for customers in light of market

conditions, the terms of the financing order and the agreed upon process and timing.

Second, the market for asset backed securities in general and rate reduction bonds in particular is highly liquid and broadly understood. The liquidity and breadth of the ABS market have become even more pronounced in recent years, as I have discussed.

Third, as noted in my direct testimony, the new-issue process for asset backed securities is similar to that for high-grade corporate bonds and requires a similar level of care and due diligence on the part of the utility. FPL is a highly regarded participant in the high-grade corporate bond market and has the expertise and corporate culture necessary for conducting a well-run issuance process in storm recovery bonds.

Q. Do you agree that being held to a strict or unqualified standard as to lowest cost ensures achieving the objectives of the transaction?

A. No, because there are conflicting effects. As stated above, such a standard tends to lead to higher issuance costs and longer delays, each of which is inconsistent with an overall objective of completing the transaction efficiently and expeditiously at the lowest total cost.

E. Authorization at Time of Decision, Not Afterward

Q. Why do you recommend that all required authorizations and approvals (save those relating to confirming arithmetic accuracy of calculations) be delivered at or before pricing?

A. A pricing call involves a confirmation of prices for bonds at a particular moment in time, at which ownership and economic risk is agreed by all parties to pass from issuer to underwriters and from underwriters to investors. The terms of trade are confirmed orally by conference call with reference to benchmark pricing that is supplied on electronic screens real-time by one or more agreed-upon market information services. Once trades are confirmed orally, they are considered final and binding on all parties. Written confirmations that follow are intended as a bookkeeping discipline, for the parties to agree on arithmetical accuracy. Buyers will typically enter into (and sellers will close out) hedging transactions immediately upon oral confirmation. A failure to issue the bonds post pricing, which would follow from the refusal of one party to deliver its required certificate, would have enormous consequences for all parties, and would certainly compromise the ability of Florida utilities to employ this financing method in subsequent transactions.

IV. APPLICATION OF THE SABER PROGRAM IN TEXAS

Q. How long should it take to bring a rate reduction bond transaction to market?

A. The relevant measurement is from the date that the financing order has become final from a regulatory perspective, and upon settlement with all parties or expiration of all applicable judicial appeal periods.. At this point, if the registration statement is ready to file and the rating agency presentation prepared, the process can be completed within 60 days, barring review by the SEC or extensive comment on documents (particularly legal opinions) by the rating agencies.

Q. How long has it taken for Texas deals to go from the non-appeal date to the pricing?

A. By Credit Suisse's estimate, it has ranged from 55 to 232 days (from about 2 to 8 months), with the average of the four most recent deals being about 167 days (about 5.5 months).

Q. To what do you attribute this extended time frame?

A. I think it is primarily due to extended discussions among the parties (with significant attorney involvement) achieving no resolution for extended periods of time.

Q. Did the competitive selection process for underwriters that was initiated and organized by Saber Partners result in a reduction of the issuance costs borne by the customers of Texas utilities?

A. In the first four of the five Texas transactions to date, the evidence does not favor such a conclusion. In the requests for information ("RFIs") for prospective underwriters, respondents were not asked to specify an underwriting fee proposal. In each of these transactions, the underwriting fee

agreed to up front was identically 0.48%. In each case, the underwriters' fee was reduced by approximately 0.06%, to approximately 0.42%, but customers did not receive the benefit this fee reduction (approximately $1.6 million in total) because it was made payable to Saber Partners as part of the advisory fees discussed below.

Q. Was the fifth transaction different?

A. Yes. The RFI for the CenterPoint offering required prospective underwriters to suggest an underwriting fee. In its response to the RFI, Credit Suisse suggested a fee lower than the 0.48% previously charged. In connection with the selection process for underwriters, a commissioner spoke directly with my firm and asked if we would agree to a still lower figure, which Saber confirmed at 0.40% on fixed rate bonds and 0.375% on floating rate bonds. The fee reduction accomplished through this process, approximately $1.7 million, was not paid to Saber but went directly to the benefit of customers.

Q. According to Mr. Fichera's testimony, Credit Suisse, as CenterPoint's financial advisor, proposed an underwriting fee of 0.55% on that transaction, but the final fee negotiated by Saber was 0.38%. In response to FPL Interrogatory No. 24, Mr. Fichera indicated that the competitive process was initiated and organized by Saber in cooperation with the utility. What is your response?

A. I presented the figure 0.55% in my testimony in that docket simply as an estimate based on historical averages. It was not a prediction of the outcome of CenterPoint's competitive process. CenterPoint did not propose to hire any

underwriters at such a fee. The fee negotiation is described in my previous response. If the fee negotiation element of the underwriter selection process in the CenterPoint deal was initiated by Saber, I am unsure why it was not employed in the four prior Texas transactions.

Q. Has the Texas issuance process, which applied many of Mr. Fichera's proposed "best practices," involved significant legal and financial advisory fees?

A. Yes. Over the five Texas transition bonds, according to filings in the respective dockets, legal fees have totaled approximately $21.5 million, or an average of $4.3 million per deal. This is about $11.6 million more than the $9.9 million originally budgeted in the related financing orders. The financial advisory fees totaled $6.7 million, or about $1.3 million per deal, of which $5.7 million were awarded pursuant to a single RFI process conducted in 2000.

Q. Have the incremental issuance costs been justified by reduced interest costs?

A. Putting aside the indirect costs of such a process in terms of time and resource commitment by the parties as well as the Commission, I do not know how to estimate with any precision either the quantifiable incremental issuance costs attributable to the activist approach that Mr. Fichera has advocated or the basis-point savings that may have resulted from it. However, I would like to suggest an analytical approach to "boxing in" the trade-off between issuance

costs and interest costs. This involves calculating how much a basis point in interest cost is worth in today's dollars.

Q. How can we measure the value of a basis point in interest cost savings relative to a dollar amount of incremental issuance costs?

A. The value of a basis point of interest cost can be expressed as a dollar-price equivalent, which is the change in the dollar price of a bond that would result from a one-basis-point change in its yield. A "dollar-price" is the amount paid for a bond, net of accrued interest, expressed as a percentage of its face amount. The dollar-price equivalent of a basis point, multiplied by the face amount of bonds, will give the amount of money in today's dollars that a basis point of savings is worth over the life of the bonds.

Q. Can you give an illustration?

A. Set forth below, for the illustrative structure of FPL's proposed bond issuance presented in Document No. WO-2 to my direct testimony, is the dollar-price equivalent of a basis point change in yield for each of the four tranches of that particular structure and for the deal as a whole.

Tranche	Balance	Weighted Average Life	Dollar Price Equivalent of 1 bp	Dollar Value of 1 bp
A1	$201,000,000	2.0	0.0187%	$37,507
A2	$240,000,000	5.0	0.0437%	$104,808
A3	$106,000,000	7.0	0.0585%	$61,999
A4	$503,000,000	10.0	0.0771%	$387,914
	$1,050,000,000	**7.0**	**0.0564%**	**$592,228**

Stated another way, every basis point of additional interest rate has a present value cost of about $600,000, or about 0.056% of the face amount of the bonds.

Q. Is there another common approach, if we don't have cash-flow models to make such calculations?

A. Yes. The calculation above is a transparent way to derive the index that equates dollars today to interest paid over time. The "duration" of a bond is a different calculation that results in a substantially identical index of the dollar-price equivalent of a basis point. For example, the duration of the structure in Document No. WO-2 is approximately 5.6 years, corresponding to a 0.056% movement in dollar price from a 1 basis point change in yield.

Q. Is the original duration of the Texas transactions at time of issuance available?

A. Yes. On a weighted average basis across all five deals it is approximately 6.1 years.

Q. How is this helpful?

A. Using this data point we can estimate the basis point equivalent of any amount of issuance costs. For example, $10 million of issuance costs represents about .21% of the $4.75 billion aggregate face amount of the bonds. This is equivalent to about 3.4 basis points of incremental issuance costs (0.21% dollar price divided by 6.1 years duration equals 0.034% per year). So $10 million of incremental costs would be justified if the interest cost savings were

more than 3.4 basis points and not justified if they were less. If $5 million is a more appropriate estimate, then 1.7 basis points would be the interest-cost savings that would justify it. If $15 million, then 5.0 basis points would be needed to balance the equation.

For a frame of reference, $10 million is equal to the sum of (a) the amount by which the financial advisory fees of $6.7 million have exceeded the rate of $500,000 per deal, plus (b) half of the amount by which the actual legal fees in Texas ($21.5 million) have exceeded the caps imposed in their financing orders ($9.9 million).

Q. Do you have any conclusion as to whether the incremental costs of the activist approach in Texas were justified by any savings in interest cost?

A. I do not. As I said, I don't know how to estimate with any precision either of these two variables. What I have presented is a method of finding the interest-cost equivalent of an issuance cost or vice-versa, and have given an illustration of the order of magnitude of the numbers involved and the relationships between them. However, it is important to consider whether the incremental costs of the activist are justified. In an era of tightened spreads and increased market liquidity, it is less likely that the incremental costs and additional time associated with the activist approach will be justified.

V. DISCLOSURE

Q. What is a "free-writing" prospectus?

A. Under the long-standing securities law for public transactions, the legal document that constitutes an offer of securities to investors is called a prospectus (or a statutory prospectus). Under regulations that became effective on December 1, 2005, the concept of a "free-writing" prospectus was created. A "free-writing" prospectus is any written communication, other than a statutory prospectus, which would otherwise constitute an offer under the previously existing regulatory environment. A "free-writing" prospectus can take any form including an e-mail or webcast (i.e., investor presentations). The effect of this new legislation is that issuers and their control group now have securities law liability for any ancillary writings containing issuer information that may be communicated to investors, as if the information were contained in the prospectus itself.

Q. What liability does an issuer of securities, like the SPE, have when its storm-recovery bonds are offered to the public for sale?

A. When securities are registered with the SEC and sold to the public, the issuer (the SPE) is "absolutely liable" for material misstatements and omissions. That is, it is liable for losses caused by any untrue statement of material fact in the prospectus or the omission to state a material fact necessary to make the statements made not misleading. A material fact is a fact to which there is a substantial likelihood that a reasonable investor would attach importance in determining whether to purchase the security.

Q. Will FPL be equally responsible with the SPE for securities law liabilities?

A. A controlling person such as FPL is, in that capacity, liable with the issuer (the SPE) unless it did not know, and had no reasonable grounds to believe in the existence of, the facts creating the liability.

Q. What is a due diligence defense?

A. Securities law provides underwriters with the "due diligence" defense that protects an underwriter who had, after reasonable investigation, reasonable grounds to believe that there was no material misstatement or omission. The legal opinions customarily delivered with new issues of securities are intended (among other things) to document part of this investigation and support the due diligence defense. One of these opinions is called the "10(b)-5" opinion (named for a section of a federal statute) giving counsel's opinion as to whether the prospectus contains material misstatements or omissions.

Q. Can the issuer or FPL avoid liability through a due diligence defense, supported in part by a 10(b)-5 opinion?

A. No. Their liability under federal securities law is absolute and not subject to a defense that they performed due diligence and relied on a 10(b)-5 opinion of counsel.

Q. Could anyone indemnify the SPE or FPL against securities law liabilities?

A. Even if the transaction documents were revised to expressly contemplate an indemnity of the SPE and FPL against securities law liabilities, agreements to indemnify issuers and controlling persons in federal securities law cases are

generally regarded as contrary to public policy and unenforceable because they can mitigate the force of the statutory obligations imposed on the indemnified parties.

Q. There is a statement in the CenterPoint prospectus that "the broad-based nature of the true-up mechanism and the state pledge described above, along with other elements of the Bonds, will serve to effectively eliminate, for all practical purposes and circumstances, any credit risk associated with the Bonds (i.e., that sufficient funds will be available and paid to discharge all principal and interest obligations when due)." Do you think that statement is true?

A. Yes.

Q. Why then has it caused so much controversy?

A. First of all, it is not a fact; it is a conclusion. I happen to think it's true, but that doesn't make it a statement of fact. It is like a representation and warranty, where the issue does not go to whether the parties think the statement is true, but rather to the allocation of liability if someone makes a successful claim that the statement is false or misleading. Thus, it is also true that the statement has the effect of exposing the utility and the underwriters to a greater risk of liability, if a problem ever did arise with the bonds.

Q. Wouldn't the issuing SPE, and by extension FPL's customers, also be placed at risk?

A. Probably. However, the SPE, and by extension FPL's customers, are already responsible (collectively) for the repayment of the principal and interest on the

bonds. In the unlikely event of a default on the bonds, this statement potentially puts the utility on the hook for these obligations, although the intention was that it should not be liable for the SPE's debts.

Q. If the statement is true, why not require the utility to make the statement, in order to persuade investors of the superior investment merits of the bonds?

A. In my experience, professionals who purchase securities for multi-billion-dollar portfolios generally "get it" very quickly. Rate reduction bonds are not a complicated credit. Once investors understand two things--the power of having a legally protected right to collect a dedicated tariff from all the customers of a major utility, and the right to adjust that charge as necessary to meet debt service--they realize that it is hard to conceive of a scenario in which the bonds will not pay as agreed.

Thus, I doubt that the statement enhances the marketability of the bonds, other than by suggesting that, if anything did go wrong with the bonds, investors would have a very good case to collect from the utility, the underwriters and potentially the Commission through securities law litigation. If the statement came from the Commission rather than the Issuer (by language in the financing order quoted in the prospectus), the Issuer's and the utility's liability should be diminished.

Q. If a 10(b)-5 opinion can be given by counsel, why should either the Issuer or the utility have any potential liability?

A. As noted above, while a 10(b)-5 opinion affords some protection to underwriters, it does not insulate the Issuer or the utility (as a controlling person) from potential liability.

VI. SRBs AS ASSET BACKED SECURITIES

Q. Do you agree with Mr. Fichera's statement that storm-recovery bonds do not fall precisely in the asset-backed securities market?

A. Yes, but they do not fall precisely into any other market either.

Q. What are the advantages to the asset-backed securities market?

A. As I have noted, it is the largest single sector of the U.S. fixed-income market other than Treasuries and agencies and offers unmatched liquidity as a result. Under SEC rules, ABS issuers file on Form S-3 and once a registration statement is effective, they can circulate "term sheets," which are abbreviated and simplified summaries of the offering, without necessarily delivering a full-blown preliminary prospectus at the same time. Under U.S. banking rules, asset-backed securities rated "AA" or better are classified as per se 20% risk weighted. Asset-backed investors have embraced the RRB product and been the major source of liquidity for it, helping it to reach the historically tight spreads shown in Document No. WO-12.

Q. Are RRB issuers generally missing an opportunity by not promoting these securities as corporate or agency securities?

A. No. These markets are well aware of the merits of the asset class. Because of their excellent credit and hybrid nature, new issue RRBs are marketed by

Credit Suisse in both the ABS and corporate markets and are shown to agency and international investors as well. The pricing book typically reflects interest from a variety of investors. If the true value of these securities is greater than the current trading levels reflect, it is not because the market is unaware of the merits of the credit relative to other high-grade fixed-income investment opportunities. The value proposition is open daily to any investor who thinks the securities are worth more than current trading levels, to vote for them with his or her dollars.

Q. Is the market value of RRBs a function of the representations, warranties and covenants of the utility?

A. As a general proposition, the "package" of representations, warranties and covenants underlying a bond issue is essential to the creditworthiness of the security. However, given the high minimum standards on these packages that are imposed by the rating agencies for their "AAA" ratings, I am unaware of any pricing differentiation or "tiering" from one issuer or one state to the next, relating to differences in their packages of representations, warranties, and covenants.

Q. What is your perspective on "de-registration," that is, ceasing to file quarterly and annual reports with the SEC after the first 10K, given fewer than 300 holders, as permitted under federal securities laws?

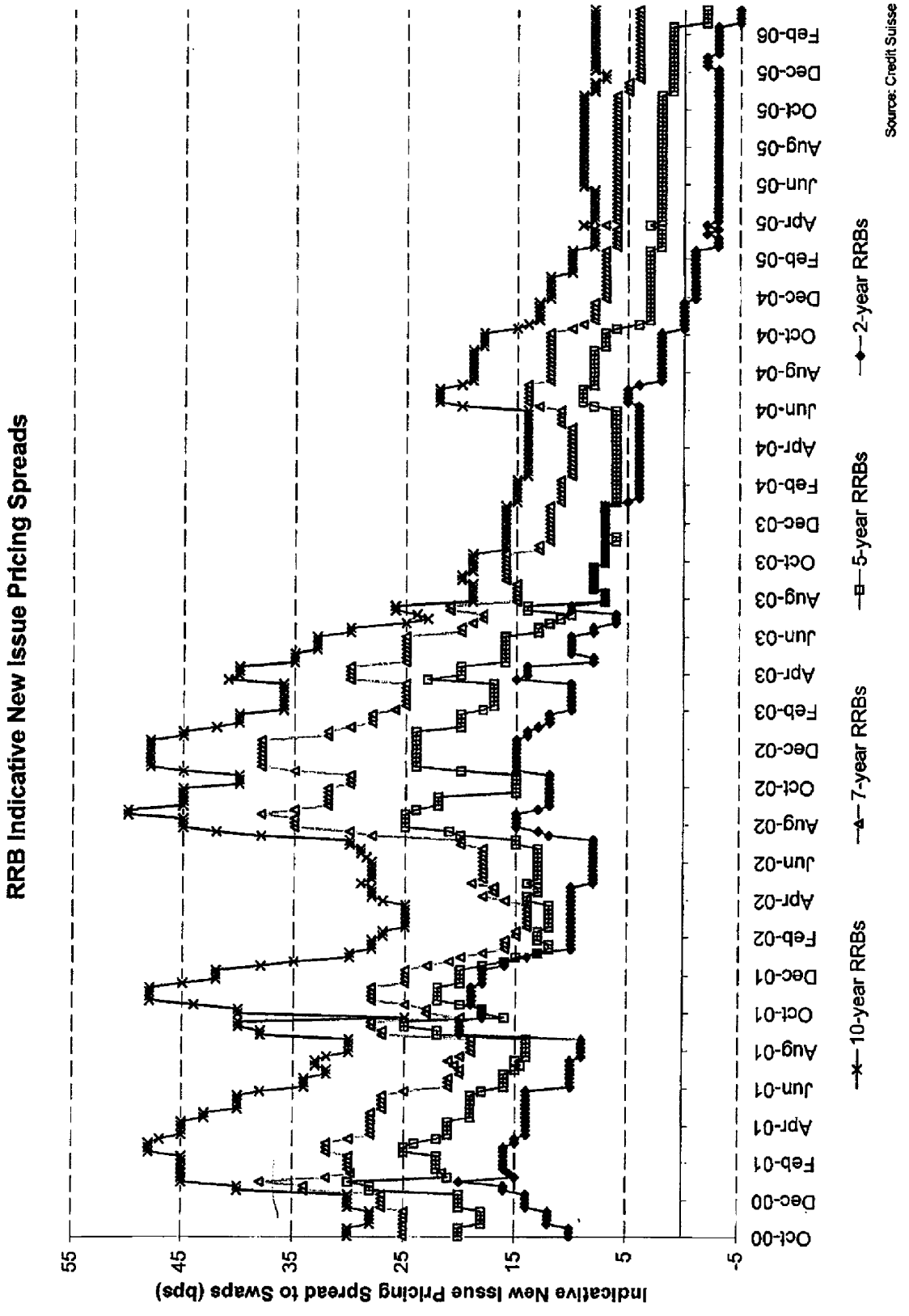
A. De-registration is a common practice. I am not aware of any issuer suffering a pricing disadvantage in the marketplace because of de-registration, provided that the issuer provides a user-friendly website with a high-quality investor

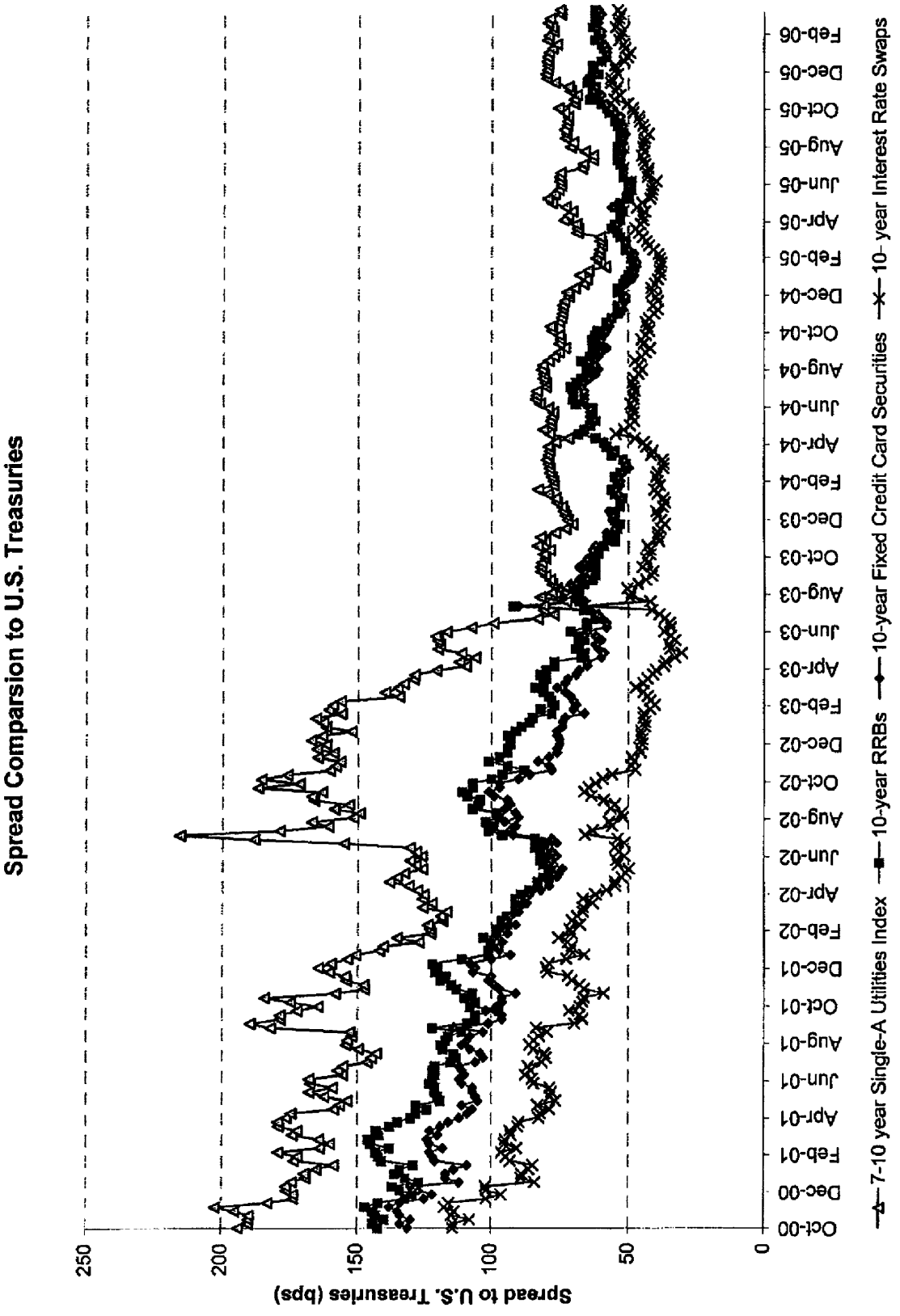
relations section, where the reports that are specified in the transaction documents are posted regularly and promptly.

Q. Does this conclude your rebuttal testimony?

A. Yes.

Docket No. 060038-EI
Wayne Olson, Exhibit No. _____
Document No. WO-12, Page 1 of 2
Market Spreads 2000-2006




Spread Comparsion to U.S. Treasuries
Spread to U.S. Treasuries (bps)
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200
150
100
50
0
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Dec-00
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Apr-01
Jun-01
Aug-01
Oct-01
Dec-01
Feb-02
Apr-02
Jun-02
Aug-02
Oct-02
Dec-02
Feb-03
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Feb-05
Apr-05
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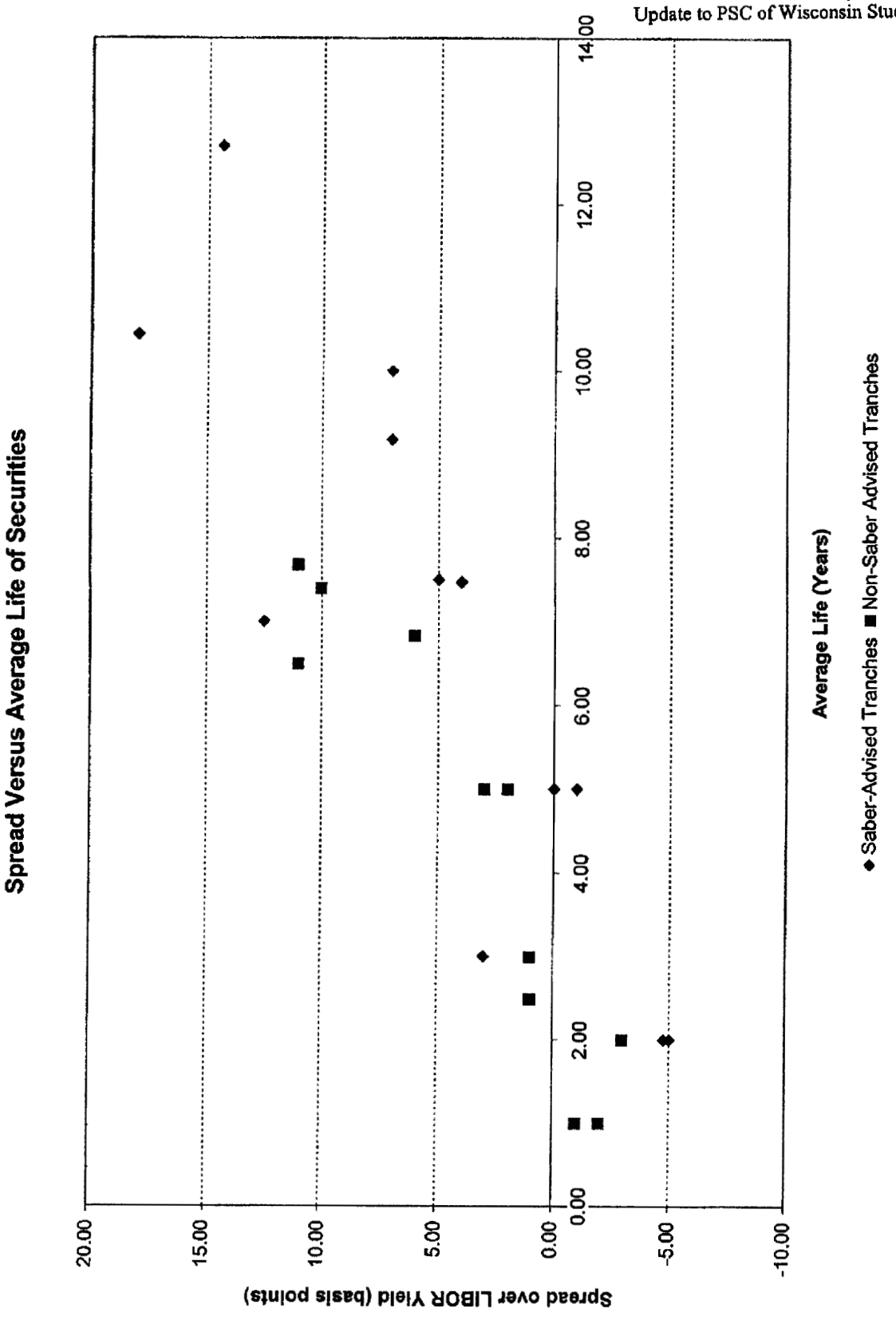
Feb-06
7-10 year Single-A Utilities Index
10-year RRBs
10-year Fixed Credit Card Securities
10- year Interest Rate Swaps


Spread Versus Average Life of Securities
Spread over LIBOR Yield (basis points)
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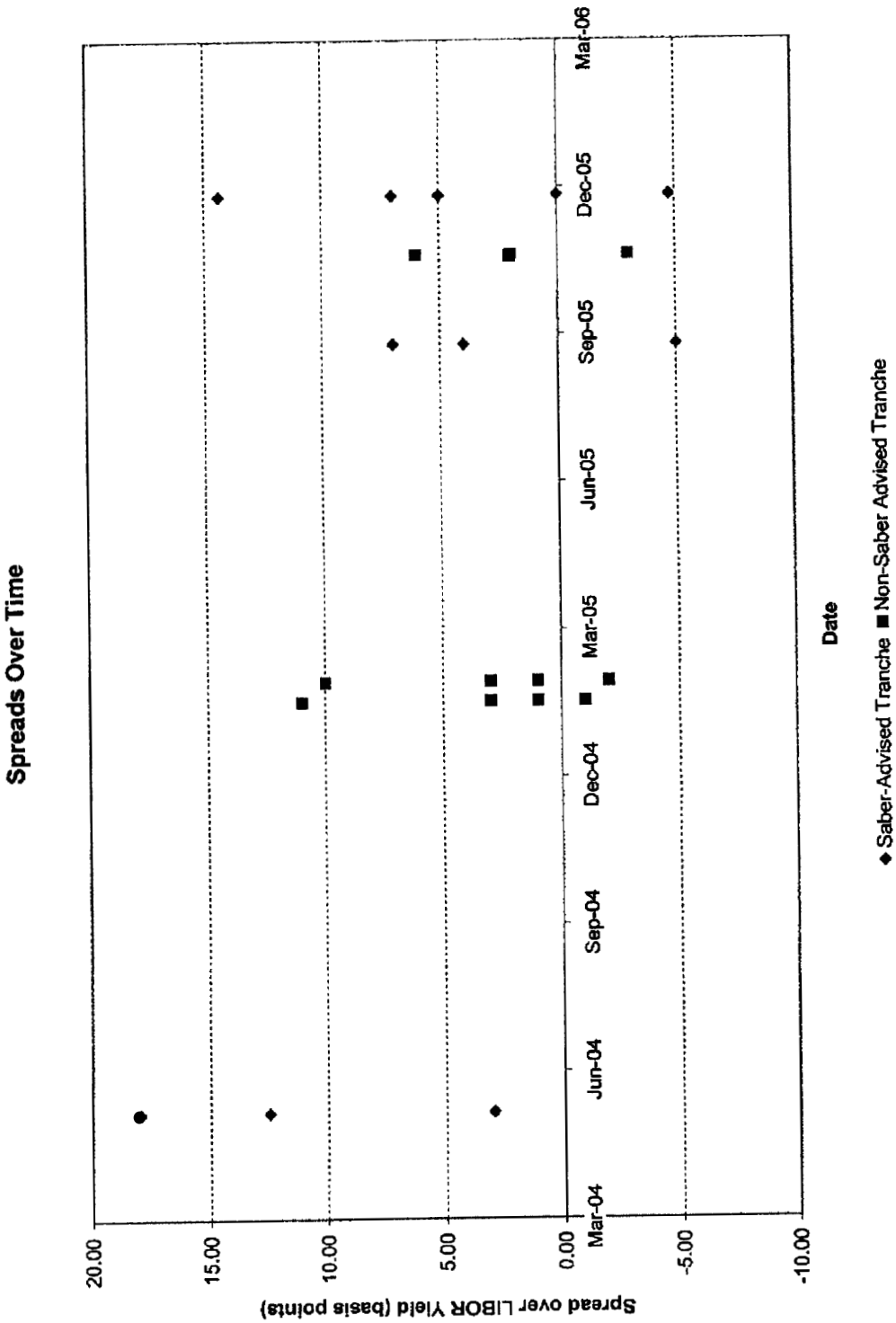
5.00
0.00
-5.00
-10.00
0.00
2.00
4.00
6.00
8.00
10.00
12.00
14.00
Average Life (Years)
◆ Saber-Advised Tranches ■ Non-Saber Advised Tranches


Spreads Over Time
Spread over LIBOR Yield (basis points)
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10.00
5.00
0.00
-5.00
-10.00
Mar-04
Jun-04
Sep-04
Dec-04
Mar-05
Jun-05
Sep-05
Dec-05
Mar-06
Date
◆ Saber-Advised Tranche ■ Non-Saber Advised Tranche