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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Direct Testimony of Michael L. Noel,

Appearing on Behalf of Staff

DOCKET NO. 060154-EI

May 9, 2006

DIRECT TESTIMONY OF MICHAEL L. NOEL

Q. Please state your name and business address.

A. Michael L. Noel, Saber Partners, LLC, 44 Wall Street, New York, New York

Professional Qualifications and Education

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

A. I am a member of Saber Partners, LLC, and serve as a Senior Managing Director and Senior Advisor.

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

A. I serve in a senior advisory position which includes participating in business strategy and procurement of new business; meeting with Saber Partners' clients and potential clients such as public service commissions; meeting with senior officers of the utilities and investment banks with which we work; and assisting in the development and review of presentations we make to our clients and potential clients.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor's degree in Finance from California State University at Long Beach where I graduated cum laude. I also have a Master's degree in Business Administration from the University of Southern California where I graduated summa cum laude.

I began working with Southern California Edison Company (Edison) as a Financial Analyst, where I enjoyed a thirty-year career prior to my retirement. During those thirty years, I also worked as the Manager of Financial Planning, Manager of Corporate Planning, Treasurer,

Vice President of Finance, and Senior Vice President and Chief Financial Officer. I was a member of the Officers' Council, which was composed of the Company's top five officers. I also served as Senior Vice President and Chief Financial Officer at the Company's parent, Edison International Company. Some of my other assignments included serving as an officer and on the Board of Directors for two of Edison International's non-regulated subsidiaries, Edison Mission Energy Company and Edison Mission Land Company. During my career at Edison, I was a member of the Los Angeles Society of Financial Analysts.

In 1998, subsequent to my retirement, I established Noel Consulting Company, providing financial advice to corporations and financial institutions. The business evolved into one of working with Saber Partners (since 2002) and serving on several Boards of Directors. I have served on seven corporate boards, and at the current time I serve on three: Avista Corporation (an electric and gas utility serving the Pacific Northwest), HighMark Funds (a mutual fund family) and SCAN Health Plan. I currently serve or have served in the leadership positions of Chairman of the Board, Chairman of the Audit Committee, Chairman of the Compensation Committee, Chairman of the Governance Committee and a member of the Finance Committee. On the three boards where I currently serve, I am a named Audit Committee Financial Expert under the Sarbanes-Oxley Act. I am a member of the National Association of Corporate Directors, and in 2004 I co-authored an article for that organization, "Board Transformation: Does Change Have a Chance?"

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe in what respects utility ratepayer-backed bond financings are different from those traditionally transacted in the utility industry and why the

uniqueness of ratepayer-backed bonds requires them to be marketed differently from traditional utility bonds. In addition, I will give a professional opinion on whether the proposed transaction should be sold through a competitive bid or negotiated offering process. I also will describe why an active commission, with the assistance and advice of a financial advisor, is in the best interest of ratepayers, and I will discuss the potential savings that could result from the Florida Commission's involvement.

Q. Can you provide some of your background and experience with utility financings while you were at Southern California Edison?

A. Yes. During most of my career at Edison, the power needs in our service territory were growing rapidly. We were building plant and equipment that required billions of dollars of external financing, including large nuclear and coal plants. As a result, I oversaw dozens of financings and billions of dollars of debt and equity offerings in the U.S. and internationally.

Q. Did Edison accomplish those financings through competitively bid or negotiated offerings?

A. In California at that time, the California Public Utilities Commission (CPUC) worked under a "rebuttable presumption" that financings must be done on a competitive-bid basis unless the Company could show that a negotiated offering could produce a lower cost and was in the best interest of ratepayers. So, in the majority of cases, especially with debt offerings, we issued our securities by forming multiple underwriting groups and having them submit sealed bids. The lowest-cost bidding syndicate was awarded the deal.

Q. Why did the CPUC believe that a competitive bid was likely to produce the lowest cost for ratepayers?

A. This view was held because Edison was typically issuing first mortgage bonds ("FMBs").

There was nothing unique or special about these bonds. The investment banking firms were purchasing FMBs from us and then re-selling the bonds to investors who understood the bonds well, including the underlying credit worthiness of the bonds. Investors knew what they were getting and were well-acquainted with the appropriate pricing for those bonds in the marketplace. This made it possible for us to bring the bonds to market quickly and get them sold efficiently. It also provided a benefit to the Company of not having to provide proof to the CPUC that we indeed received the lowest cost for our bonds. That was inherently assumed in the competitive-bid process.

Q. Were there instances of Edison doing negotiated offerings?

A. Yes, there were many. Examples of some of these negotiated deals include nine offerings in Europe, the world's first corporate "Shogun Bonds" (dollar-denominated bonds sold in Japan), currency swaps where Australian and New Zealand dollars were swapped for U.S. dollars, and interest-rate swaps to convert floating-rate obligations into fixed-dollar obligations.

Q. Couldn't those issues have been done through a competitive bid?

A. Theoretically, yes. However, from a practical standpoint, no. In order to obtain the lowest-cost of funds for the benefit of ratepayers, we believed it necessary to work diligently to communicate with the rating agencies and potential investors the unique characteristics and underlying credit of these securities which were not well understood. It involved a team of underwriters selected by us. It also included our management and financial staff and attorneys. All of those parties, to one extent or another, traveled--often internationally--to meet with the rating agencies and potential investors, making presentations and answering their questions. These were not simple, straightforward offerings. It took time and effort to conduct educational sessions with investors and hard-fought negotiations with the

underwriters who first purchased the securities from us before re-selling them in the marketplace. We had to first assure ourselves and then the CPUC that we had obtained the lowest cost of funds. We were required to file exhibits, and if necessary, testify before the CPUC regarding our results. If we couldn't show ratepayer savings, we faced potential disallowances in our rate cases.

Q. With that in mind, would you recommend that Gulf Power Company's (Gulf) proposed storm-recovery bond issue be sold through a competitive bid or through a negotiated offering?

A. Saber Partners will evaluate both options, but in my opinion, it's likely that this issue will need to be sold through a negotiated offering. First, although the benefits and value of a securitization offering are becoming more widely known to bond investors, these bonds still are not being sold or traded at the low yields they should command. There is more education to do both in the U.S. and internationally. I believe that a robust effort on the part of Gulf and the underwriters to reach a broad array of investors and to educate them on the incredibly favorable features these bonds hold can bring down the yields in a meaningful way. Second, interested investors will want to scrutinize this and the FPL storm-recovery bond issue to see how they may differ from ratepayer-backed bonds that have been issued in other states. Investors will want to be certain that Florida's pledges of safety to the investor are not weaker than similar pledges in other states. That will take some added effort on the part of Gulf and the underwriters to talk with investors and get them comfortable with such items as the State's pledge and the true-up mechanism. The true-up mechanism will be an especially important topic because investors will speculate on how effectively and efficiently the true-up mechanism will work if another large hurricane were to strike Florida. Investors have no experience with bonds issued to pay for hurricane recovery costs and the bond-safety features

that would kick in because no other state has issued storm-recovery bonds. Investors will need to get comfortable with the assurances that the Florida mechanisms would provide. By contrast, a competitively bid offering would, by definition, not enable the much-needed and thorough communication program that this offering will require to achieve the best price for the bonds. As a result, I believe the costs to ratepayers likely would be higher with a competitively bid offering.

Q. In either type of issuance, are the interests of ratepayers aligned with the interests of the underwriters?

A. No. The interests of underwriters are fundamentally adverse to the interests of ratepayers. Underwriters will want to negotiate on the margin for somewhat higher rates of interest so that their sales forces will be able to sell the storm-recovery bonds with the least effort, satisfying the desires of their investor clients for high interest rates. Underwriters also will negotiate for the highest possible underwriting fees.

There is nothing inherently wrong about the interests of underwriters being adverse to the interest of ratepayers. It is part of the market system. But this fundamental adversity of interests is important to keep in mind in selecting underwriters, in negotiating underwriters' fees, in negotiating a marketing plan, and especially in negotiating the final prices and interest rates with underwriters and investors. This will be especially true in connection with storm-recovery bonds where 100% of the economic burden will be borne by ratepayers.

In addition, we must recognize that some abusive practices and malfeasance by underwriters in the public capital markets is well documented and publicized, and we must always be diligent in our dealings. These cases add support for Commission involvement and oversight in the issuance of the storm-recovery bonds.

For all of these reasons, it will be vital for the Commission, with the assistance of a qualified

and independent financial advisor without any potential conflicts of interest, and with the cooperation of Gulf, to be vigilant and to play an active and visible role throughout the process of structuring, marketing and pricing storm-recovery bonds.

Q. Will the interests of ratepayers and Gulf be aligned in the underwriting of the storm-recovery bonds?

A. Not entirely. While Gulf has a general business interest to keep overall customer rates low, Gulf will have no obligation to repay the storm-recovery bonds and will have no responsibility to pay any of the costs. All costs will be borne solely by the ratepayers; therefore Gulf will have a less-than-normal economic incentive to achieve the lowest possible cost. Gulf may have other incentives; indeed it may have corporate policies to achieve the lowest costs and to keep rates low, but in this storm-recovery bond transaction, all of the traditional checks and balances on Gulf, such as rate cases, will be missing. Gulf's highest priority in this transaction likely will be to get the issuance done quickly, without the added effort that ratepayer-backed bonds deserve in order to obtain the appropriate, lowest cost from investors for the benefit of ratepayers.

In more typical debt and equity offerings, utilities have strong incentives to negotiate hard with underwriters for the lowest possible interest rates as well as the lowest possible underwriting fees. Utilities also have strong incentives to minimize other issuance costs. Because a utility's allowed rate of return on rate base generally is adjusted only periodically to reflect changes in the utility's blended cost of capital, the benefit from a low net cost of funds is captured at least in part by the utility's shareholders, and the detriment from a high net cost of funds is borne at least in part by the utility's shareholders during the period of regulatory lag. Consequently, at least in the short run, the utility's shareholders must bear a part of the detriment from a high net cost of funds. These same consequences and incentives do not

come into play in connection with ratepayer-backed bonds.

Q. Why do you believe that Gulf's proposed securitization issue needs the oversight of the Commission?

A. Ratepayers need to have a seat at the table during the entire process because they are the sole obligors for this debt. Without the Commission's oversight, the bond pricing will not be as high and the yield as low because of less aggressive marketing and pricing, and the transaction documents will probably not have the desired protections for ratepayers. The extra cost borne by ratepayers from an inefficient transaction and the potential liabilities from less-than-optimal legal documents could be significant.

Q. Why couldn't the Commission simply rely on Gulf and its investment bankers to ensure the lowest cost for the benefit of ratepayers, without Commission involvement and without a financial advisor?

A. First, although I believe Gulf would be well intentioned, it is human nature to not invest the time and effort needed to produce maximum ratepayer savings when there is no adverse consequence to management or its shareholders for a mediocre result. In securitization offerings, ratepayers are totally and solely responsible for the repayment of the bonds. For example, in my experience in a securitization transaction in another state, management showed its indifference in many ways. It assigned mid-level personnel to the task and didn't show leadership in directing the investment bankers to keep the plan on schedule. This utility allowed the investment bankers to miss deadlines and produce less than satisfactory drafts of the "Roadshow," which is an Internet-based investor-education slide show with accompanying voice-over. The utility also allowed the investment bankers to assign inexperienced personnel to the production of the Road Show, so it continually was deficient and fell behind schedule

until senior, experienced bankers eventually stepped in at the financial advisor's urging. Moreover, management often pressured the Commission's financial advisor to bring the issue to market well before it was ready, given all the missed deadlines and inadequate preparation. We often heard, "Let's go. We need our money." I don't recall ever hearing the utility speak of obtaining the lowest cost of funds for ratepayers.

Second, as I alluded to earlier, there is an inherent flaw in the process of selling securities. Many people don't realize that the underwriters first buy the bonds from the utility before re-selling them to investors. Hence, the underwriters have an incentive to buy the bonds from the issuer with a cushion built in so that they can sell the bonds to investors at a price that will provide the underwriters with a more robust profit. Underwriters also deal with large insurance companies, mutual funds and other financial institutions who threaten to move their business from Investment Banker-A to Investment Banker-B if Investment Banker-A does not sell the bonds at an "attractive" price (i.e., a low price and high yield) to its largest clients. Also, these institutional investors are smart, tough negotiators. Furthermore, investment banks operate under the principle of transacting deals quickly, with as little effort as possible and with pricing that will move the bonds out the door. It is a high-volume, high-turnover, high-margin business. Their sales force moves day-to-day from one transaction to another, one phone call to another, and they don't like to be bothered with having to get involved in understanding the story of why ratepayer-backed bonds hold excellent value and then having to explain that story to their customers. Hence, without oversight from a financial advisor who is experienced in the financial markets and understands in detail the inner-workings of securities pricing conventions, and without a broad-based investor group to provide maximum competition for the bonds, an inexperienced or uninvolved commission will not get the lowest interest rates and the lowest fees on behalf of ratepayers.

Q. How then does Saber Partners propose that a group of underwriters be hired who will work to achieve the lowest cost of funds for ratepayers?

A. Saber Partners believes in conducting a competitive process for the selection of underwriters in conjunction with Gulf. First, Saber Partners has successfully innovated a "pay-for-performance" compensation plan in other states that it proposes be utilized in Florida. Traditionally, utilities have selected investment bankers on a fixed-fee arrangement. That is, once the investment bankers have been selected, the vast majority of the economics (i.e., compensation) is decided. At that point, the investment banking firm has little incentive to perform other than to try to ensure it is included in the next deal. Often, a utility will put an underwriter in a deal or promise to include it in the next deal because of other business the underwriter is doing with the utility, such as making loans to the utility. Saber Partners believes in hiring underwriters who: (a) have proven themselves in other ratepayer-backed bond issues and who have reasonable fees, and then providing them incentives to bring investors to the table at the appropriate price for the bonds rather than trying to bring in a few big-ticket orders at unfavorable prices in order to satisfy their favorite customers; (b) bring new investors to the deal; and (c) do a great job with the communications effort. This, we propose, would be done through a selection and compensation process that has both competitive and negotiated aspects in a joint effort involving Gulf, the Commission and the Commission's financial advisor, as has been done successfully in other states. Although the underwriters then selected would be answerable to the team, they would be competing with each other to demonstrate excellent results and to be rewarded accordingly.

Q. Are you familiar with the actions and protocols which Mr. Fichera has referred to in his testimony as "best practices" in utility securitization bond issues?

A. Yes, I am.

Q. Regarding these "best practices," what is your opinion of this approach for this proposed transaction?

A. Although my responsibilities at Saber Partners do not include being intimately involved in each "best practices" item, I find this approach to be a well-reasoned and sound one. It is one I endorse based on my years of experience in overseeing financings and being a Chief Financial Officer.

Q. What studies have you reviewed that measure the impact of Saber Partners' advice on the costs of ratepayer-backed-bond transactions?

A. In addition to my own involvement in some ratepayer-backed bond pricings, I have reviewed the Wisconsin Public Service Commission's analysis, Exhibit MLN-1, and Citigroup's and Lehman Brothers' compilations of data on many ratepayer-backed bond transactions in the U.S.

Q. Can you identify the completed transactions and the pending transactions where Saber Partners was the financial advisor or will be the financial advisor?

A. Yes. Exhibit MLN-2 provides that information. Saber Partners has acted as the financial advisor in six transactions and has five transactions pending in four states.

Q. In the six completed transactions in Exhibit MLN-3, is it true that Saber Partners and the Commissions followed an active, "best practices" role?

A. Yes.

Q. What about the pending transactions?

A. In West Virginia, Wisconsin and Texas, Saber Partners has been authorized by those Commissions to employ "best practices" as part of its active role in those transactions.

Q. Do you have any comments on the upcoming storm-recovery bond financings in Florida?

A. Yes. A major issue in this proceeding is whether the Commission should grant Saber Partners authority to play an active role as its financial advisor throughout the process, including the moments leading up to pricing.

Q. Have you reviewed data on the performance of Saber Partners in its transactions compared to transactions where Saber was not the financial advisor?

A. Yes, I have. First, as I mentioned earlier, the Wisconsin Public Service Commission authored a study in 2004, "Analysis of the Potential Savings from Using Saber Partners." I have included it in its entirety in EXH MLN-1. I have included in the text of my testimony below two tables taken directly from that study. The data covers four Saber-advised deals and ten non-Saber-advised deals from 2001-2004. Within these fourteen ratepayer-backed bond transactions were pricings on 54 different maturities, so the data is robust. It is important to note that prior to the first Saber transaction measured by the Wisconsin Commission $26 billion of ratepayer-backed bonds had already been sold to investors in 18 separate negotiated transactions. The market was well established and the pricing expectations among investors were also well established. This made any changes brought about through active Commission oversight and involvement particularly challenging.

The first table shows the average number of basis points saved when Saber Partners was the financial advisor versus transactions where Saber was not the financial advisor. The first table shows that the "Savings Attributable to Saber" ranged from 14-19 basis points.

The second table is similar, but it shows comparisons by maturities. It concludes that "Savings Attributable to Saber" ranged from 5 basis points on a one-year maturity to 29 basis points on a 15-year maturity. Both tables show basis point savings that are meaningful to ratepayers.

It is important to note that the Wisconsin Public Service Commission analysis was undertaken for that Commission by its economist to test the credibility of the alleged "Saber effect," (i.e., a pro-active effort to promote ratepayer interests in the structure, marketing and pricing of the bonds) not to measure expected dollar savings. It also was not intended as a testimonial to Saber Partners. Rather, it reflects one commission's approach for testing the effectiveness of a potential financial advisor. Saber Partners believes the favorable results that came out of the study are due to the "best practices" process Saber Partners has identified and employs.

Comparison of Yield Spreads (basis points)
(Benchmark: LIBOR Swap Rate)

	Saber Advised	No Saber Advice	Savings Attributable to Saber
No. of Deals	16	38	***
Mean Yield Spread	26	45	19
Median Yield Spread	26	40	14

Comparison of Yield Spreads (basis points)
(Benchmark: LIBOR Swap Rate)

Term to Maturity (Years)	Saber Advised	No Saber Advice	Savings Attributable to Saber
1	19	24	5
2	20	27	7
3	21	30	9
4	23	33	10
5	24	36	12
6	25	39	14
7	26	42	16
8	28	45	17
9	29	48	19
10	30	51	21
11	31	54	23
12	33	57	24
13	34	60	26
14	35	63	28
15	37	66	29

Also included in EXH MLN-1 is a chart from the Wisconsin Public Service Commission study where interest-rate spreads are plotted for ratepayer-backed bond transactions. As you will see, the "Saber Deals" plot points are quite consistently more favorable (i.e., at lower interest-rate spreads) than the "non-Saber" plot points.

Q. Are there any more Exhibits you would discuss in confirming Saber Partners' effectiveness in providing ratepayer savings?

A. Yes. I have included as Exhibit MLN-3 a chart showing data prepared and provided by Lehman

Brothers and charted by Saber Partners. The horizontal bars show interest-rate spreads relative to a commonly used benchmark for states with multiple ratepayer-backed bond issues from 2001 to 2005. This schedule includes a timeline which indicates that, when a utility came to market without an advisor or with an advisor that wasn't Saber Partners, that deal was followed by a Saber-advised deal with more favorable interest-rate spreads to the benchmark. In every case, the differential in Saber's active efforts on behalf of ratepayers was significant. That difference translated to meaningful savings for ratepayers.

Summary of Testimony and Recommendations to Commission

Q. Mr. Noel, can you briefly summarize your testimony?

A. I hope I have accomplished my goal of showing why ratepayer-backed bonds are different from traditional bonds and, hence, need to be marketed differently. Ratepayer-backed bonds contain incredible value for investors, and if G, the Commission, and its financial advisor, working together with the investment-banking group selected, can effectively communicate the value and safety of these bonds, Florida ratepayers will enjoy the lowest cost of funds available in the marketplace. I also hope I have shown that a commission's active involvement, with Saber Partners acting as its financial advisor, can result in meaningful savings for ratepayers.

Q. Can you list your recommendations to the Commission?

A. I recommend that the Commission direct Gulf to work in a collaborative manner with the Commission and its financial advisor in the selection of underwriters and the structuring, marketing and pricing of the bonds, while following the "best practices" outlined by Mr. Fichera in his testimony.

Q. Does this conclude your testimony?

A. Yes it does.

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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 MICHAEL L. NOEL 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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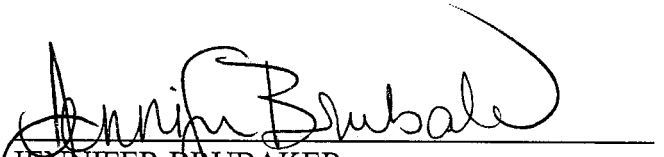

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Exhibit MLN-1 Study by the Wisconsin Public Service Commission

In 2004 the Wisconsin Public Service Commission performed an independent study analyzing the benefit of hiring Saber Partners on the pricing of utility fee bond transactions. Historical utility fee bond pricing data from April of 2000 to June of 2004 were analyzed using numerous statistical techniques. The study concluded that "...for a 10-year securitization issue, Saber's advice would reduce the yield spread on the security by about 15-20 basis points. For a $500 million security, this amounts to a savings of $750,000 to $1,000,000 per year." [1]

[1] Kihm, Steven G. Analysis of the Potential Savings from Saber Partners. Wisconsin Public Service Commission, 2004, pg 1.

Public Service Commission of Wisconsin

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Robert M. Garvin, Commissioner
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Analysis of the Potential Savings From Saber Partners

Steven G. Kihm, CFA
Financial Analyst
Gas and Energy Division
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Executive Summary

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 Partners' advice adds substantial value for the ratepayer. It also confirms some of the concerns of our staff that the proposed deal 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.

Overview

Saber Partners provided us with a database containing information regarding utility securitizations that have been completed over the past three years. In some cases Saber advised the regulator overseeing the transaction; in other cases it did not.

The key variable in question is the yield spread on the securitized debt relative to a benchmark, in this case the LIBOR Swap rate. This is a commonly used benchmark for asset-backed securities. I analyzed the data using a variety of techniques ranging from a simple comparison of means to multiple regression (including multiplicative interaction terms). The null hypothesis in this analysis is that the average yield spread when Saber advised on the transaction is the same as the average yield spread when it did not provide advice. The alternative hypothesis is that the yield spreads are significantly lower when Saber advised on the transaction.

The Data

Saber presented, but did not include in its data analysis, the spreads on a few short-term securitizations. There are two reasons for this: (1) most utility securitizations involve long-term issues, suggesting that the short-term issues may not be particularly relevant; and (2) two of the short-term deals on which Saber did not advise had extremely high yield spreads. As to the latter point, Saber actually would have demonstrated greater savings if it had included the two extreme points.

I prefer not to remove outliers from the data. If one has time, robust statistical techniques can be used to reduce the influence of extreme points without actually eliminating them from the data set. Nevertheless, given the short amount of time afforded for the analysis of this data, the Saber approach seems reasonable, especially since eliminating those points makes it more difficult for Saber to make its case that it can lower the yield spread.

Comparison of Means and Medians

A relatively simple method of comparing the spreads on the securities is to examine measures of central tendency (means and medians). This provides a rough-cut comparison that is a jumping-off point more than a definitive answer.

The following table shows the means and median for the two groups of securitizations:

Comparison of Yield Spreads (basis points)
(Benchmark: LIBOR Swap Rate)

	Saber Advised	No Saber Advice	Savings Attributable to Saber
No. of Deals	16	38	***
Mean Yield Spread	26	45	19
Median Yield Spread	26	40	14

This simple analysis suggests that there is a noticeable difference between the yields on the Saber-advised deals relative to the yields on the other deals. The difference in means is highly significant (t-statistic = 4.7).[1]

One might conclude from this analysis that, if all other factors were similar, Saber's advice reduces the yield spread by about 15 basis points relative to that which would result in a non-Saber-advised deal. On a $500 million issue, such as the one being proposed in our proceeding, that would amount to $750,000 per year in interest costs savings.

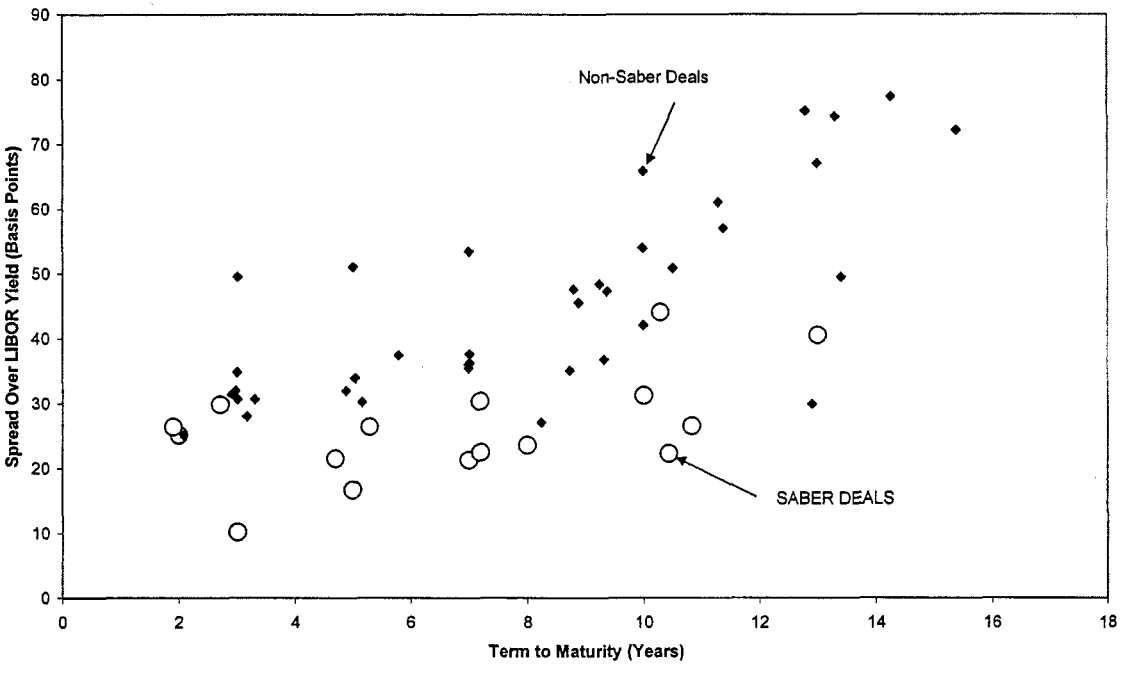
Yield Spread Versus Term to Maturity

The major problem with the comparison of the measures of central tendency is that other factors may confound the analysis. For example, it could be the case that all of the Saber-advised deals involved securities with a term to maturity of 10 years or less while the other deals had terms to maturity in excess of 10 years.

[1] Calculating the statistical significance of the difference in medians requires a more complex non-parametric statistical analysis, which given the time constraints is beyond the scope of this investigation.

Analysis of the data reveals that term to maturity is not a confounding factor. The following chart is a plot of the yield spread and the term to maturity for all the deals in the data set. Note that most of the Saber-advised deals produced yield spreads below those of the other deals regardless of the term to maturity.

Spreads Versus Term of Securities



A simple regression model that adjusts for time to maturity (term) can be estimated using the entire data. (Alternatively, two separate regressions, one on the Saber data and one on the non-Saber data could be estimated.)

The regression model that I estimated[2] has the following functional form:

$$Spread = \beta_0 + \beta_1 \times Term + \beta_2 \times Saber$$

The variables are defined as follows:

Spread = yield spread over LIBOR Swap rate
Term = years to maturity
Saber = indicator as to whether Saber advised (1 = yes; 0 = no)

[2] All regression models in this analysis are ordinary least squares models.

The estimated regression model is:

$$Spread = 24.58 + 2.54 \times Term - 15.65 \times Saber$$

The coefficients on the *Term* and *Saber* variables are highly significant. The interpretation of these coefficients is: (1) increasing the term to maturity by 1 year adds about 2.5 basis points to the yield spread; and (2) including Saber as advisor reduces the yield by about 16 basis points, regardless of the term to maturity.

We can allow for an interaction between the *Term* variable and the *Saber* variable by estimating the following model (the reason for doing this will be obvious in a moment):

$$Spread = \beta_0 + \beta_1 \times Term + \beta_2 \times Saber + \beta_3 \times (Term \times Saber)$$

Estimating this model yields the following result:

$$Spread = 21.06 + 2.97 \times Term - 3.48 \times Saber - 1.71 \times (Term \times Saber)$$

Interpreting the statistical significance of individual variables when interaction terms are included in a regression model is a bit more complicated than it is when only non-interactive variables are considered. In this case, the *Term* and *Term x Saber* variables are significant, but when viewed in isolation, the *Saber* variable is not. Anyone who has even a small amount of knowledge of regression analysis would know that this does not suggest that Saber's advice is not valuable. To estimate the net effect of Saber's advice, we must know whether Saber advised and the term to maturity of the security. The following table shows the estimated net effect:

Comparison of Yield Spreads (basis points)
(Benchmark: LIBOR Swap Rate)

Term to Maturity (Years)	Saber Advised	No Saber Advice	Savings Attributable to Saber
1	19	24	5
2	20	27	7
3	21	30	9
4	23	33	10
5	24	36	12
6	25	39	14
7	26	42	16
8	28	45	17
9	29	48	19
10	30	51	21
11	31	54	23
12	33	57	24
13	34	60	26
14	35	63	28
15	37	66	29

This reveals that the savings attributable to Saber increase as the term to maturity increases. At a 1-year maturity, the savings attributable to Saber are only about 5 basis points; at a 10-year maturity, the savings increase to 21 basis points. For a $500 million issue with a weighted average life of 10 years, the savings in interest cost due to Saber's advice are estimated to be about $1,000,000 per year.

While not necessary in a technical sense, to assuage any concerns among non-statistically-trained people about the insignificant term in the regression, we can re-estimate model with the Saber term deleted to show that the savings attributable to Saber are significant. In that case the model is:

$$Spread = \beta_0 + \beta_1 \times Term + \beta_3 \times (Term \times Saber)$$

Note that the Saber variable is in the model, but now only as a component of an interaction term. Estimating this model yields:

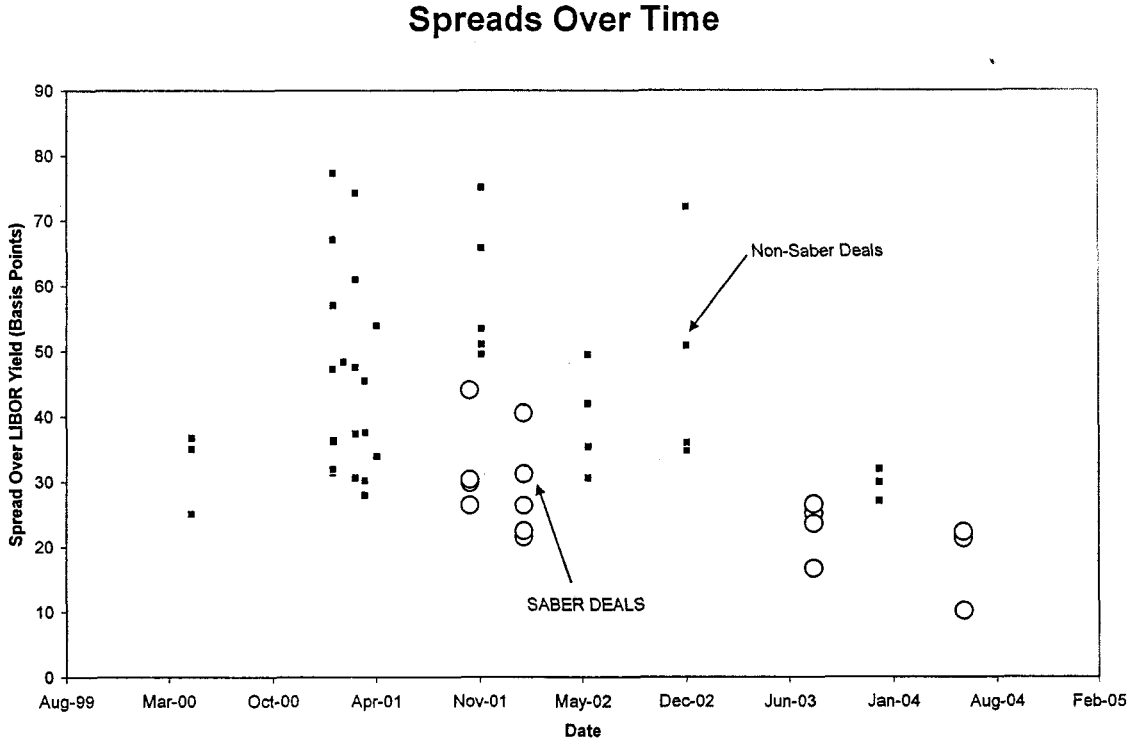
$$Spread = 19.94 + 3.09 \times Term - 2.11 \times (Term \times Saber)$$

Both slope coefficients are highly statistically significant. According to this model, if Saber advised on a deal involving a 10-year security, the estimated savings would be 21 basis points, which is exactly the same as the estimate from the prior model.

Yield Spread Versus Time

Another variable that could confound the analysis is time. It is hypothetically possible that Saber could have advised on deals at a time when market conditions for securitized securities were more favorable than they were when the other securities, for which Saber was not the advisor, were issued.

Analysis of the data again reveals that such is not the case. The following chart shows the yield spread for the Saber-advised and non-Saber-advised deals over time.



The yields on the Saber-advised deals are consistently below the yields on the bulk of the non-Saber-advised deals regardless of the timing of those deals.

We can include the time variable in our regression model as follows:

$$Spread = \beta_0 + \beta_1 \times Term + \beta_2 \times Saber + \beta_3 \times (Term \times Saber) + \beta 4 \times Time$$

The time variable is an index based on the Microsoft Excel® date convention. That number is adjusted so that on an annual basis January 1, 2001 equals the value of 1. The estimated model is:

$$Spread = 346.17 + 3.03 \times Term + 0.63 \times Saber - 1.79 \times (Term \times Saber) - 323.21 \times Time$$

All terms are significant, again with the exception of the stand-alone Saber variable. The Saber effect is picked up via the interaction term, which is highly significant. This model suggests that for a security with a 10-year term, the savings from Saber's advice would on net be about 17 basis points.

If one prefers the model with only the interaction term for Saber, and not the stand-alone variable, the result is:

$$Spread = 343.19 + 3.01 \times Term - 1.72 \times (Term \times Saber) - 320.06 \times Time$$

This model suggests that the savings from a Saber-advised 10-year deal would be 17 basis points, which is again identical to the estimate from the previous model.

Conclusion

The analysis of the data suggests that for a 10-year security, Saber's advice is worth about 15 to 20 basis points per year, on net, in terms of reduced interest charges. For a $500 million bond issue, this amounts to interest cost savings of $750,000 to $1,000,000 per year.

Exhibit MLN-3. Saber Partners Ratepayer-Backed Bond Assignments

The following table highlights the completed and pending ratepayer-backed bond transactions on which Saber Partners, LLC has been hired to act as Financial Advisor.

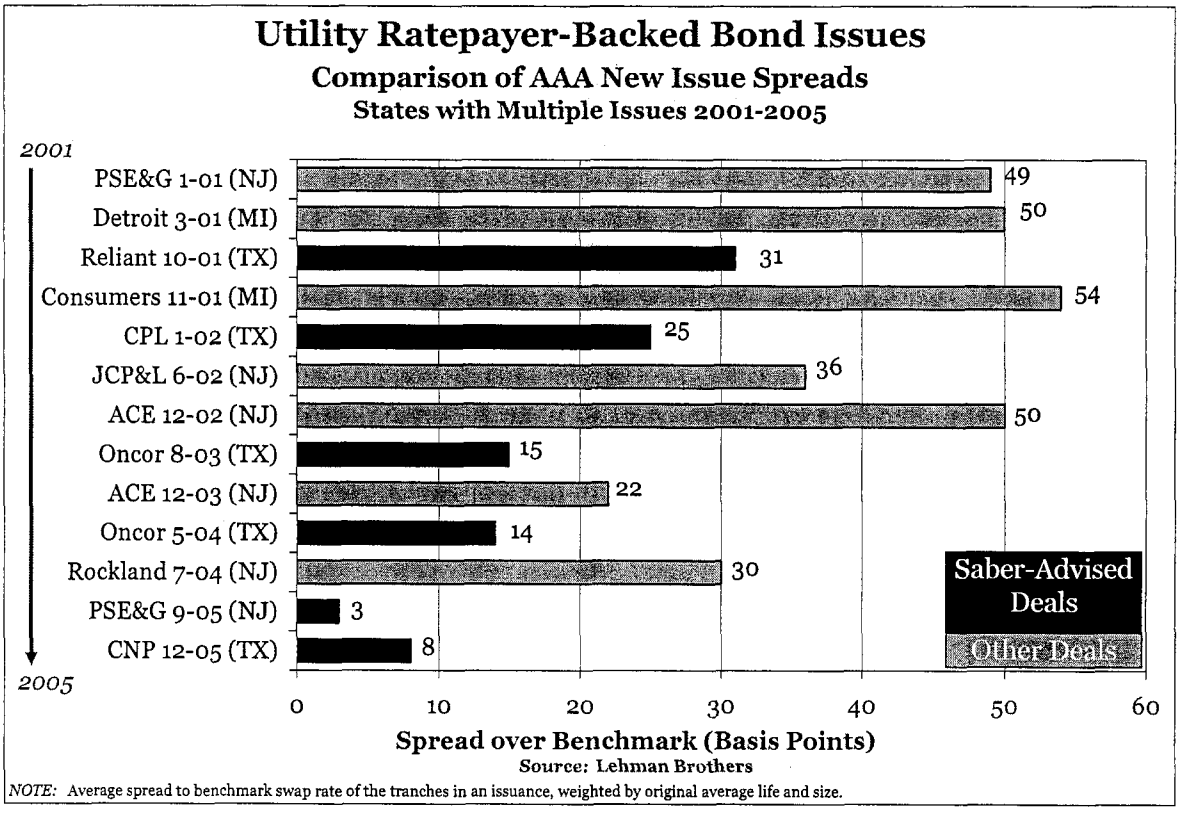
Saber Partners Ratepayer-Backed Bond Assignments, Completed and Pending

Date	Transaction	State	Size ($mm)	Financial Advisor	Commission Approach
2001-Oct-17	CenterPoint Energy, Ser. 2001-1	Texas	$ 748.90	Saber Partners, LLC	Active
2002-Jan-31	CPL, Ser. 2002-1	Texas	797.33	Saber Partners, LLC	Active
2003-Aug-14	Oncor Electric, Ser. 2003-1	Texas	500.00	Saber Partners, LLC	Active
2004-May-28	Oncor/TXU Electric, Ser. 2004-1	Texas	789.78	Saber Partners, LLC	Active
2005-Sep-09	PSE&G, Ser. 2005-1	New Jersey	102.70	Saber Partners, LLC	Active
2005-Dec-09	CenterPoint Energy, Ser. 2005-A	Texas	1,851.00	Saber Partners, LLC	Active
	Subtotal Completed Deals		**$ 4,789.71**		
Pending	AEP	Texas	$ 1,300.00	Saber Partners, LLC	Active
Pending	Allegheny Power	West Virginia	381.00	Saber Partners, LLC	Active
Pending	Florida Power & Light	Florida	1,050.00	Saber Partners, LLC	Pending
Pending	Gulf Power	Florida	150.00	Saber Partners, LLC	Pending
Pending	Wisconsin Electric Power	Wisconsin	450.00	Saber Partners, LLC	Active
	Subtotal Pending Deals		**$ 3,331.00**		
	Total Pending and Completed Saber-Advised Deals		**$ 8,120.71**		

Exhibit MLN-4. Historical Pricing of Ratepayer-Backed Bonds

The chart below shows the weighted average spread to the benchmark swap rate for ratepayer-backed bonds issued since 2001 in states with multiple issues. Only issues with original terms equal to or greater than ten years were considered. The chart is adapted from data sourced to Lehman Brothers[1].

Pricing of Ratepayer-Backed Bond transactions from states with multiple issuances, 2001-2005



[1] Lehman Brothers, CSFB and RBS Greenwich Capital. *CenterPoint Energy Senior Secured Transition Bonds Series A Pricing Book.* Page 4. January 13, 2006.