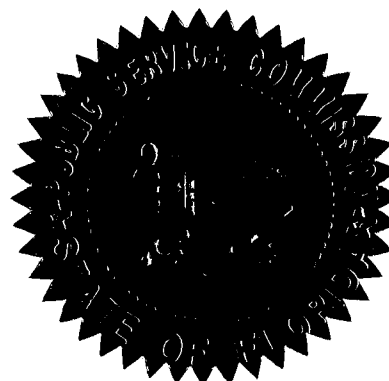


BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

STATUS OF FPL STORM RECOVERY BOND  
TRANSACTION.



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PROCEEDINGS: INTERNAL AFFAIRS AGENDA  
ITEM NO. 3

BEFORE: CHAIRMAN LISA POLAK EDGAR  
COMMISSIONER MATTHEW M. CARTER, II  
COMMISSIONER KATRINA J. MCMURRIAN  
COMMISSIONER NANCY ARGENZIANO  
COMMISSIONER NATHAN A. SKOP

DATE: Monday, May 21, 2007

PLACE: Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR  
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DOCUMENT NUMBER - DATE

04180 MAY 23 06

## P R O C E E D I N G S

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2 CHAIRMAN EDGAR: We are on Item 3, which is a status  
3 report or a briefing on the bond transaction from the  
4 securitization.

5 Commissioner Carter.

6 COMMISSIONER CARTER: Before we go to that, I think  
7 it's incumbent upon the spirit of that motion that staff can go  
8 ahead on and make those corrections so we can meet that  
9 deadline and get the information for the Governor and Cabinet.

10 CHAIRMAN EDGAR: My thinking is that the discussion  
11 that we have had is sufficient to clarify and be clear as to  
12 what we have asked the staff to do.

13 Mr. Cooke, does that make you comfortable?

14 MR. COOKE: I think, Commissioners, what I heard was  
15 mainly editorial comments with fairly specific direction as to  
16 how to make these changes, so I think there is enough there to  
17 say that staff can incorporate these on the --

18 COMMISSIONER CARTER: Excellent.

19 CHAIRMAN EDGAR: Thank you.

20 MR. COOKE: If I may, I will start Item 3.

21 CHAIRMAN EDGAR: Please do.

22 MR. COOKE: As you said, Commissioner, this is a  
23 review of the status of the Florida Power and Light  
24 storm-recovery bond offering transaction which is scheduled to  
25 go to closing tomorrow in New York. Our review is going to

1 focus on the structure, the pricing, and the marketing of the  
2 transaction. And it is important to note that the financing  
3 order is designed to allow this closing to occur without  
4 further action by the Commission, as long as the transaction  
5 complies with applicable law, complies with the financing  
6 order, and as long as required certifications have been  
7 received. And it is our view that all of these conditions have  
8 been met. We wanted to give this Commission an opportunity to  
9 know how this transaction has turned out and to raise any  
10 questions it might wish to.

11           The primary focus of the financing order is on  
12 achieving what is called the lowest cost objective. And,  
13 essentially, without going into a lot of language that is in  
14 the financing order, that means getting the best price possible  
15 from the perspective of the ratepayers. And we're happy to say  
16 that based on the way that we have proceeded with this we have  
17 achieved that objective. And Andrew Maurey, in a minute, will  
18 explain a little bit more about the specific details of that.

19           Before he does that, I did want to talk a little bit  
20 about how we did structure this transaction. Originally, the  
21 financing order, it originally was designed to allow for what  
22 is called a negotiated transaction. And essentially that means  
23 a transaction in which a team of pre-selected underwriters are  
24 pulled together and they go out and they talk to their  
25 potential investors. They come back to the bond team in this

1 case, or the offerer, and they discuss with them the reactions  
2 they have gotten, and a pricing for the offering is negotiated  
3 amongst the offerer and the underwriters.

4           In those types of transactions, the underwriters have  
5 an interest in making sure that they can get as high an  
6 interest rate as they think they can, because that is where  
7 they make their money, whereas the offerer is trying to drive  
8 down that interest rate. At least in this case, in utility  
9 securitizations where it is really the ratepayer who is paying  
10 those prices, you want to try to drive those interest rates  
11 down as much as possible.

12           We initially pursued that type of transaction.  
13 However, in about February or March of this year we came to the  
14 conclusion that it would be appropriate to switch to what is  
15 called a competitive sale. In a competitive sale essentially  
16 you conduct an auction, and in our case we conducted an auction  
17 of the entire offering of the transaction. We determined it  
18 was appropriate to go to that approach because there have been  
19 a number of these transactions in the marketplace previously;  
20 something on the order of 20 to 30 securitizations have  
21 occurred prior to this one.

22           This is the first one in Florida, but it is not the  
23 first one that the market has ever seen. And in that sense the  
24 market is a little more used to this type of offering, so it  
25 can make sense to do a competitive sale as opposed to a

1 transaction structure.

2 We also, in connection with going to a competitive  
3 sale, were able to negotiate with Florida Power and Light a  
4 guarantee that our sale results would at least be equal to two  
5 recent securitization transactions that have occurred in the  
6 marketplace that are viewed as very favorable, and specifically  
7 they were a transaction in Texas last October and a transaction  
8 in West Virginia that happened about a month ago. So we felt  
9 comfortable that we couldn't lose. The sale price as a result  
10 of the auction was either going to be better than those deals  
11 or, if it were not, then FPL had guaranteed that it would  
12 contribute the difference into the reserve using shareholder  
13 money, and in that sense we would be making the shareholders  
14 whole.

15 Having made that decision, we went out and we  
16 marketed appropriately --

17 CHAIRMAN EDGAR: Mike, we would be making the  
18 customers whole?

19 MR. COOKE: The customers whole, the ratepayers  
20 whole.

21 CHAIRMAN EDGAR: Sorry. I didn't mean to --

22 MR. COOKE: No. Thank you.

23 We did our marketing efforts, and last Tuesday we  
24 conducted the auction in the offices of the underwriting  
25 counsel in New York. We received a total of 16 bids from major

1 international investment banking firms, firms such as Bank of  
2 America, Credit Suisse, J.P. Morgan, we had Merrill Lynch  
3 involved, Royal Bank of Scotland, there were a number of  
4 well-known names who participated in the transaction.

5 We believe getting 16 bids is an indication of the  
6 robust interest that we got in this transaction as well. The  
7 lowest and, therefore, the winning bid was received from  
8 Wachovia Bank, and I'm going to let Andrew describe in detail  
9 the result of that bid and why it compares favorably to the  
10 prior transactions that we used as benchmarks.

11 MR. MAUREY: Thank you.

12 On the chart that is in front of you there are three  
13 transactions, the key components of these three transactions.  
14 The first one is the AEP transaction, which was, as Michael  
15 said, October of '06 involving AEP Texas Central. The middle  
16 transaction is the FPL transaction I will be talking about.  
17 And then on the far right is the Monongahela Power transaction.  
18 I'm just going to call it MonPower.

19 When these deals are compared over time, relative  
20 interest rates move up and down, so the convention for  
21 comparing one deal to another over time is how it priced  
22 relative to the pricing benchmark and the selling conditions.  
23 So at the time that FPL proposed going to a competitive option,  
24 the AEP transaction was the most recent transaction completed  
25 and it was generally recognized as the most cost-effective

1 transaction to date in this asset class.

2           There have been 30 previous transactions totalling  
3 \$39 billion with this particular type of asset class, utility  
4 securitization. When FPL had -- AEP was chosen for two  
5 reasons: One, it was the most cost-effective transaction to  
6 date, and also it compared very favorably with the tranches in  
7 the FPL transaction.

8           As you can see, the approximate 2, 5, 7 and 10-year  
9 tranches compare almost identically with the four FPL tranches.  
10 AEP did have one additional tranche. But because it was of a  
11 longer maturity there was no comparable tranche in the FPL  
12 deal, it wasn't considered for part of the benchmark.

13           And if you look in the far right column, you will see  
14 MonPower. It also had an approximate five-year transaction and  
15 a ten-year transaction or tranche, I should say. It had two  
16 longer tranches, but, again, for reasons they weren't  
17 comparable they weren't considered. But when you look at the  
18 prices, the spread of the swap rates, you can see that the FPL  
19 deal priced better, more competitively than either AEP or  
20 MonPower on the approximate five-year tranche and also on the  
21 ten-year tranche.

22           You will also notice in the selling commission  
23 columns that the FPL deal had a smaller selling commission, so  
24 less money, less money being paid out of the proceeds of the  
25 bond, more money available to go to FPL and the reserve. So

1 against both of these metrics the FPL deal priced more  
2 cost-effectively than the AEP benchmark and the MP benchmark.

3 CHAIRMAN EDGAR: Thank you.

4 Commissioners, any questions?

5 Commissioner Carter.

6 COMMISSIONER CARTER: I just wanted to comment, Madam  
7 Chairman. I think it is very timely and appropriate. We are  
8 on the verge of getting another storm season, so it is  
9 appropriate. I think staff has done a great job in coming up  
10 with an ideal transaction that is in the best interest of the  
11 ratepayers, and that is what we are about, and I think this is  
12 an outstanding transaction.

13 CHAIRMAN EDGAR: Thank you.

14 Our staff has worked thousands, thousands upon  
15 thousands upon thousands of hours and, of course, spoken with  
16 FPL as well, we have worked together on this. Commissioner  
17 Deason did some of the heavy lifting before he left working  
18 with the bond team, and so my thanks, our thanks to him as well  
19 for his work on this. This is just a briefing, so there is no  
20 action required. Mr. Cooke, anything else?

21 MR. COOKE: No. As I explained, this goes  
22 automatically to closing unless there were some reason to stop  
23 it. If we needed to stop it, we would need an action;  
24 otherwise, we don't need a vote.

25 CHAIRMAN EDGAR: We are ready for this to move on to



1 come to a conclusion.

2 MR. COOKE: We think it is a very good result and  
3 appreciate your --

4 CHAIRMAN EDGAR: Thank you Andrew and Jennifer, and  
5 I'm sure I am forgetting somebody. Tim and others in your  
6 office, thank you for your work on this. With that, we are  
7 adjourned.

8 (Internal Affairs Item No. 3 concluded.)

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1 STATE OF FLORIDA )  
2 COUNTY OF LEON )

CERTIFICATE OF REPORTER


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I, JANE FAUROT, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically transcribed from tape the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 23<sup>d</sup> day of May, 2007.

  
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