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Public Utility Commission of Texas

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June 1, 2015

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Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

To Whom It May Concern:

This letter is in regard to the *State of Florida Public Service Commission Request for Proposals for Financial advisory and Expert Witness Services to Assist the Florida Public Service Commission with Electric Utility Petition to Issue Nuclear Asset-Recovery Bonds*. My understanding is that FirstSouthwest is responding to this request for proposal and applying to provide advisory services to your Commission.


FirstSouthwest has served as the financial advisor to the Public Utility Commission of Texas (PUCT) in four proceedings in which the PUCT oversaw the issuance by Texas electric utilities of "securitized" bonds, which are a form of financing authorized by specific state legislation and for which the repayment is based on specific charges paid by the utilities' customers. Two of the four transactions were in 2009, and two were in 2012.

The services provided by FirstSouthwest in the four proceedings included participation in conference calls, providing advice to the Commission during the marketing process, and traveling to New York with PUC Staff to oversee pricing of the bonds. Additionally, after issuance of the bonds, FirstSouthwest issued a report on the pricing, structuring, and marketing processes, and included comparative data for similar transactions in other states.

I was the PUCT's primary point of contact with FirstSouthwest, and, in my opinion, FirstSouthwest performed its services consistent with the highest standards of professionalism, timeliness, communication, and overall quality of work.

For additional information, I have attached to this letter a memo to the Commission that I filed in one of the four proceedings. Please refer specifically to the memo's last section that describes FirstSouthwest's advisory role in the transaction. This document can be found online at:
http://interchange.puc.state.tx.us/WebApp/Interchange/Documents/39809_16_715361.PDF

Please feel free to contact me if you need additional information.


Darryl Tietjen
Director, Rate Regulation Division
Public Utility Commission of Texas
512-936-7436
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OPEN MEETING COVER SHEET

MEETING DATE: January 12, 2012

DATE DELIVERED: January 12, 2012

AGENDA ITEM NO.:

CAPTION: Project No. 39809—*Application of
CenterPoint Energy Houston Electric, LLC
for a Financing Order*

ACTION REQUESTED: Discussion and Possible Action

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Public Utility Commission of Texas

Memorandum

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To: Chairman Donna L. Nelson
Commissioner Kenneth W. Anderson, Jr.
Commissioner Rolando Pablos

From: Darryl Tietjen, Rate Regulation *DT*

Re: **Docket No. 39809—Application of CenterPoint Energy Houston Electric, LLC for a Financing Order**

Date: January 12, 2012

Securitization Pricing Levels

Yesterday (Wednesday), CenterPoint Energy Houston Electric finalized the pricing of \$1.695 billion of transition bonds authorized by the Commission in its October 27, 2011 order for this docket. I traveled to New York for the pricing, as did two representatives of the Commission's pricing advisor, First Southwest Company.

I am very pleased to inform you that the pricing levels of this transaction were extremely favorable to Texas ratepayers, as the final terms resulted in an overall time-weighted interest rate of 2.50%.¹ This extraordinarily low financing rate is the lowest ever achieved for the 11 Texas utility securitizations to date,² and this transaction is the first time a Texas utility has issued securitized bonds at an overall interest rate of less than 3.00%.

Moreover, this is the third-lowest overall interest rate ever achieved *across the country* for a utility securitization since the inception in 1997 of ratepayer-backed securitized bonds. The only two transactions with lower interest rates were for issuances of significantly smaller size and shorter maturity—one transaction in 2010 was for \$124 million and one transaction in 2011 was for \$207 million, with each having a weighted-average life of approximately five years. Given that this CenterPoint issuance is for a much larger amount with a longer weighted-average life, its overall interest rate is naturally a bit higher because the issuance's longer maturities reflect the higher rates at the upper end of the upward sloping yield curve.

For your reference, the table below lists all Texas securitization transactions to date and their overall interest costs:

¹ CenterPoint's issuance advice letter states an average interest rate of 2.45%; this figure is computed using a duration-weighted methodology, whereas the 2.50% figure is calculated using the weighted-average lives of the issuance's tranche sizes. I have included here the latter figure because it is more directly comparable to the prior Texas securitization rates listed on page 2 of this memo.

² Eight of the 11 securitizations have been for recovery of stranded costs and other true-up balances; three have been for recovery of system restoration costs.

<u>Transaction</u>	<u>Amount (millions)</u>	<u>Yield (time-weighted)</u>
Reliant 2001	\$749	5.37%
CPL 2002	\$797	5.80%
TXU 2003	\$500	4.84%
TXU 2004	\$790	4.88%
CenterPoint 2005	\$1,851	5.18%
AEP 2006	\$1,740	5.19%
Entergy 2007	\$330	5.83%
CenterPoint 2008	\$488	4.78%
Entergy 2009	\$546	3.88%
CenterPoint 2009	\$665	3.72%
CenterPoint 2012	\$1,695	2.50%

Below are some additional details on CenterPoint's current transaction:

<u>Tranche</u>	<u>Size</u>	<u>Avg Life</u>	<u>Yield</u>
A1	606,222,000	3.00	0.9012%
A2	407,516,000	7.00	2.1606%
<u>A3</u>	<u>681,262,000</u>	<u>10.81</u>	<u>3.0282%</u>
Total	1,695,000,000	7.10	2.50%

The securitized rates achieved in this financing will result in a dramatic reduction of the interest charges that, absent securitization, customers would pay on the transition costs. For CenterPoint, the nonsecuritized rate would be 7.66%, and, over the life of the bonds, the reduced interest charges from the securitization of these costs will result in savings for Texas ratepayers of over \$720 million.

Notification of Compliance

Late yesterday, a few hours after pricing, CenterPoint, pursuant to Findings of Fact 19 and 21 in the financing order, filed with the Commission its issuance advice letter detailing the final structuring and pricing terms of the bond issue. Ordering Paragraph 26 in the financing order states that:

The Commission's designated representative shall notify CenterPoint Houston and the Commission no later than 12:00 p.m. CST on the second business day after the Commission's receipt of the issuance advice letter for each series of transition bonds whether the structuring, marketing, and pricing of that series of system restoration bonds comply with the criteria established in this Financing Order.

Pursuant to the notification required by Ordering Paragraph 26, I am informing you that it is my opinion that the structuring, marketing, and pricing of each series of the transition bonds described in CenterPoint's issuance advice letter comply with the requirements of PURA and the Commission's financing order in Docket No. 39809.

Possible Commission Action

I also need to bring to your attention the specific provisions of Finding of Fact 21, which, consistent with the Commission's financing orders in previous securitization dockets, states:

The issuance advice letter for a series of transition bonds shall be submitted to the Commission not later than the end of the first business day after the pricing of such series of transition bonds....The initial transition charges and the final terms of the transition bonds set forth in the issuance advice letter shall become effective on the date of issuance of the transition bonds (which shall not occur prior to the fifth business day after pricing) unless prior to noon on the fourth business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the requirements of PURA and the Financing Order.

Accordingly, based on the provisions cited above, unless the Commission issues an order on or before Wednesday, January 18th that the proposed issuance does not comply with PURA, the transaction will close on Thursday, January 19th, and the bonds will be issued.

Therefore, if the Commission has no reason or cause to stop the transaction, no specific affirmative or "positive" action needs to be taken by the Commission for the bonds to be issued and the transition charges to begin. The terms of the Financing Order provide that the charges and terms become effective automatically unless otherwise acted upon by the Commission.

First Southwest

Finally, I would like to recognize the contributions to this transaction of the Commission's pricing advisor, First Southwest. As noted above, First Southwest sent to New York two representatives—Mike Bartolotta and Randy Fincken—for the two-day pricing of the bonds, and their input and feedback during this process were invaluable. Since November, Mike and Randy as well as a number of other representatives of First Southwest have participated regularly and actively in the many conference calls related to this transaction, and they interfaced with the transaction's lead bookrunners not only on the transaction's pricing, but on structuring details and marketing strategies as well. The independent perspective, expertise, and intimate knowledge of the capital markets they provided to the transaction helped produce for Texas ratepayers a bond issuance with extremely favorable interest rates.

I am available to answer any questions you may have regarding this transaction.