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BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. _____-EI
FLORIDA POWER & LIGHT COMPANY

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

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JANUARY 13, 2006

DIRECT TESTIMONY & EXHIBITS (WO-1 THROUGH WO-4) 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 Eleven Madison Avenue, New York, New York 10010.

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

A. I am currently a Managing Director in the Asset Backed Capital Markets group at Credit Suisse First Boston LLC (Credit Suisse). (As of January 16, 2006, the legal name of my employer will change to Credit Suisse Securities (USA) LLC.)

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

A. I am responsible for origination and structuring activities for Credit Suisse in securitizations for clients outside the financial services sector, including electric utilities.

Q. Please describe your educational background and professional experience.

A. I received an A.B. degree in 1970 from Harvard College and an M.B.A. degree in 1978 from U.C.L.A. From 1978 to 1982 I was enrolled in a graduate program in business economics at U.C.L.A., completing all the requirements for a Ph.D. degree other than the dissertation. Since 1982 (except during the period from 1998-1999) I have been employed by several securities firms in their asset-backed, residential mortgage-backed, and commercial mortgage-backed securities businesses, primarily in a banking capacity but also (during the 1980's) in trading and research capacities. From 1982-1992 I was employed at The First Boston Corporation, a predecessor firm to Credit Suisse. From 1992-1997 I was employed at Lehman Brothers; from 1997-1998 at Greenwich

Capital Markets; from 1999-2000 at Prudential Securities; and since March 2000 I have been employed at Credit Suisse. During the period from 1998-1999 I was the chief financial officer of Fortress Investment Corp., a real estate investment trust.

Q. Are you sponsoring an exhibit in this case?

A. Yes. I am sponsoring an exhibit consisting of the following documents which are attached to my direct testimony:

- Document No. WO-1: Diagram of Proposed Securitization Transaction
- Document No. WO-2: Pro-Forma Bond Structure
- Document No. WO-3: Bond Cash Flows
- Document No. WO-4: Rate Reduction Bond Transactions to-Date
- Document No. WO-5: Form of Indenture
- Document No. WO-6: Form of Sale Agreement
- Document No. WO-7: Form of Servicing Agreement
- Document No. WO-8: Form of Administration Agreement
- Document No. WO-9: Form of LLC Agreement
- Document No. WO-10: Form of Master Definitions
- Document No. WO-11: Summary of Financing Documents

The documents set forth above are subject to change, based primarily on the Commission's actions and rating agency requirements.

Q. What is the purpose of your testimony?

A. My testimony will: (1) provide an overview of the securitization process; (2) describe the structure of FPL's proposed storm-recovery bond offering; (3) explain how the structuring and pricing of the storm-recovery bonds are designed to reasonably be expected to significantly mitigate rate impacts to customers as compared with alternative methods of financing or recovering storm-recovery costs and storm-recovery reserve; (4) explain the role of certain transactions parties, such as the servicer and the trustee; (5) explain certain of the upfront bond issuance costs; (6) discuss the primary rating agency criteria for the storm-recovery bonds to obtain triple-A ratings; (7) describe the proposed pre-issuance process; and (8) provide a debt service schedule for the bonds based on current market conditions and a levelized Storm Charge (defined herein).

Q. Briefly describe the role of Credit Suisse in the proposed transaction.

A. Credit Suisse was retained by Florida Power & Light Company (FPL) to be its financial advisor for the proposed issuance of storm-recovery bonds. Credit Suisse, as financial advisor, has agreed to assist FPL in procuring a financing order to permit securitization, developing the storm-recovery bond structure, and obtaining triple-A ratings for the bonds. The services to be provided by Credit Suisse as financial advisor are described in more detail in subsection III.F. of this testimony. Credit Suisse's role as financial advisor does not include any role as an underwriter in the transaction, but Credit Suisse is not precluded from participating in the underwritings as a bookrunner or as a member of the underwriting syndicate. Services provided under those roles, if any, would be provided pursuant to a separate agreement.

II. OVERVIEW OF THE SECURITIZATION PROCESS

Q. What is securitization?

A. Securitization is a financing technique in which certain assets—typically financial assets such as loans, leases, or receivables—are legally isolated within a special purpose entity (SPE) and investors purchase securities that represent either debt, equity, or "pass-through" interests in the entity. These securities are referred to as Asset Backed Securities (ABS). Securitization has become widely accepted as an efficient way for companies to finance operations that generate a high volume of fairly homogeneous receivables and for fixed-income investors to pick-and-choose their preferred risk positions and diversify among them. The essential characteristic of bonds issued in securitized transactions is that they are issued by a special purpose entity whose only material asset is a specific revenue stream (here, the Storm Bond Repayment Charges (defined herein)), whose only material liabilities are the asset backed securities and whose primary activities are carried out through a servicing agreement with the sponsor (here, FPL). They are non-recourse to and bankruptcy-remote from any operating company. The bonds are typically self-amortizing through regular payments of principal over time, and there is a broad and diverse pool of underlying receivables from obligors (here, FPL's customers). Payments on the assets by the underlying obligors provide the cash from which interest and principal on the securities are paid over time.

Q. Please elaborate on the relationship between the SPE and the sponsor company in securitizations.

A. Although there are variations, it is common for the issuing entity to be set up by, and 100% owned by, an operating company which sells financial assets to the entity in exchange for the cash proceeds of the sale of the ABS and for a

"residual interest" in the entity's assets. Such an operating company may be referred to as the "sponsor" of the transaction. As is more fully discussed below, FPL is the sponsor of the proposed securitization.

Generally, the issuing entity enters into contractual arrangements under which the sponsor continues to provide such activities as billing and collecting from the underlying obligors, pursuing remedies against defaulting obligors, and preparing reports for investors. In the proposed transaction, FPL will perform these activities under terms of a servicing agreement and administration agreement, forms, which set out in substantial detail the terms and conditions of the proposed agreement, are attached as Document No. WO-7 and Document No. WO-8, respectively. In a well-structured securitization, great care is taken to preserve the integrity of the issuer as an entity separate from the sponsor and the isolation of the assets from the sponsor and any of its creditors, even in the event of the bankruptcy of the sponsor. Even though FPL will be collecting cash from underlying obligors on behalf of SPE, separate books, records, and accounts will need to be maintained to reflect that this cash is the property of SPE.

Q. Who is a typical investor in securitizations?

A. The most frequent investors in securitizations are banks, pension funds, insurance companies, and money managers (*i.e.*, institutional fixed-income specialists). Securitizations tend to be large, in the range of $100 million to $4 billion.

Q. How has the Asset Backed Securities market evolved?

A. The ABS market began in 1985 as an outgrowth of the residential mortgage-backed securities (RMBS) market, which by that time had become well established. ABS has evolved through the adaptation of RMBS technology to other types of consumer and commercial credits. From a little over $1 billion of issuance in 1985, the ABS market has grown at a compound rate of about 40% a year to a new-issue volume of approximately $860 billion of term securities in 2004. In addition, there is about $880 billion in outstanding Asset-Backed Commercial Paper, representing approximately one-half of the U.S. commercial paper market. Asset classes financed through ABS (in addition to rate reduction bonds) include consumer credits such as home equity loans, automobile receivables, student loans and credit card balances and commercial credits such as equipment leases, trade receivables, franchise fees and royalties.

Q. How do Asset Backed Securities compare with corporate bonds?

A. ABS and corporate bonds may be compared along the following dimensions: credit fundamentals, other investment characteristics, legal environment and the market for new issues and secondary trading.

Q. How do they compare as to credit fundamentals?

A. The sole source of repayment of ABS is an identified and isolated collateral package, together with any credit enhancement instruments that may be included. They are typically non-recourse to any operating company. As a result, ABS tend to be less subject to event risk associated with the financial performance of any particular company or individual; investors focus more on event risks related to groups of obligors or sectors of the economy. Any exposure of an ABS to company-specific event risk is typically related to a

guarantor or other credit enhancement provider. Credit migration (i.e., change in rating) is less common in ABS than in corporate bonds, and a large percentage of the downgrades of ABS are related to the downgrades of credit enhancement providers as opposed to collateral performance. Performance obligations of ABS issuers are carried out through contractual arrangements with third parties such as a servicer (to bill and collect on the issuer's assets) and a manager (for entity-level governance and reporting). A breach of a performance obligation typically causes a default under the related contract, not the ABS itself, and may result in the replacement of the defaulting service provider. The process for selecting and paying fees to replacement parties and any limitations on such fees are typically specified in ABS securitization documents.

Q. How do they compare as to other investment characteristics?

A. Unlike corporate bonds, ABS tend to pay interest and principal monthly or quarterly, although a semi-annual payment cycle (which is the norm in corporate bonds) is occasionally seen in ABS as well. Many ABS are amortizing securities, that is, principal is retired in a series of payments over time rather than on a single "bullet" maturity date, which is a more common feature of corporate bonds. Investors trade such securities based upon the average life of the security rather than the maturity date. Most ABS have considerable uncertainty around the exact pattern of principal repayment that will occur, reflecting uncertainty about the repayment characteristics and credit performance of the underlying assets.

Self amortization is viewed by fixed-income portfolio managers as somewhat less desirable than single-payment or "bullet" maturities (which are typical of

corporate and government bonds) because investors in self-amortizing bonds bear risk related to their ability to reinvest the principal as it amortizes. For example, an investor purchasing a five-year, $1,000 note at 6% interest with a bullet maturity can expect to receive 6% interest on the $1,000 for five full years. In contrast, an investor purchasing a self-amortizing $1,000 note at 6% interest can expect to receive 6% interest but only on the balance remaining after each payment. If the bond amortized ratably over the five-year period, the investor would expect to receive 6% on $1,000, but in effect only for the 2.75-year average life of the bond. Furthermore, the investor's total return over the five-year maturity is heavily dependent on the reinvestment opportunities that will exist at the various payment dates along the way.

Q. How do they compare in terms of the legal environment?

A. Structurally, ABS generally require a true sale and non-consolidation opinion, indicating that the assets have been transferred to the issuer in such a way as to make them inaccessible to the sponsor or its creditors, even in the event of the bankruptcy of the sponsor. The federal income tax treatment of ABS tends to be a more complex question than for corporate bonds so that tax counsel often need to rely on specific guidance in the tax law or from the Internal Revenue Service (as is the case with rate reduction bonds). The Securities and Exchange Commission (SEC) has developed specific rules applicable to ABS as distinct from corporate bonds.

Q. How do the markets compare as to new issues and secondary trading?

A. ABS and corporate bonds are fairly similar in these respects. Most large institutional fixed-income investors maintain portfolios of both ABS and corporate bonds, although individual portfolio managers or credit analysts will often specialize in one area or the other. The same is true of the major broker-

dealers in the two product lines. The syndicate process for distribution of new issues is very similar for both products.

Q. Can you describe the price discovery process for new issue distribution?

A. New issues of ABS and corporate bonds are typically distributed through a syndicate of underwriters, of which one or a small number will be designated as "bookrunner." A bookrunner manages the flow of orders into the syndicate and the final allocation of bonds against the orders. The marketing process typically involves an initial stimulation of interest through the distribution of term sheets and preliminary prospectus supplements (red herrings) and through "road show" presentations. Road shows have historically involved live presentations to investors in various cities, but most such presentations are now accomplished electronically through the Bloomberg information network or through one of several internet services that specialize in hosting these types of presentations. These electronic slideshows are typically recorded so that investors can view them on their own time, and often presented through a live conference call with a Q&A session as well.

Once the initial marketing is underway, an official announcement is sent by salespeople for each of the syndicate members to their customers, to whom the salespeople also send the term sheet and red herring. This distribution is generally done by e-mail, so that each salesperson can instantaneously send the documents to all of his or her customers. In this manner, a bond issue can be shown to hundreds of institutional investors in a short period of time. The salespeople will typically be given internal memoranda known as "sales points" which provide a synopsis of the key elements of the offering, not for

distribution to customers but for their reference in discussing the offering with customers by phone.

With the announcement or soon after, the issuer and the bookrunner(s) will agree on general pricing indications which salespeople are permitted to present to customers for feedback. As the syndicate and issuer receive and evaluate information on market interest, they will refine the pricing indications that are presented to the market, which in their various stages are known as "whisper talk," "price thoughts" and "price guidance." Such pricing indications are generally expressed as a range of spread differentials to a benchmark, which will typically be a specific Treasury issue or a specific point on the swap curve. When the issuer and syndicate have received sufficient indications of interest responding to these pricing ideas, they will "launch" the deal with official price talk, meaning that investors who have placed indications of interest in the book are asked to state whether they wish to place firm orders at the price talk. Given the volume of orders for each tranche, the issuer and bookrunner(s) will decide whether to fill the orders and if so, which orders to fill, or alternatively, to revise the price talk and ask for re-confirmation. When this process is complete and orders are confirmed, a conference call will be scheduled at a specific time to "price" the transaction, meaning to establish the exact value of the benchmark that will be used for each tranche and to confirm spreads, yields, coupons, par amounts, maturities and average lives.

III. TRANSACTION STRUCTURE

A. OVERVIEW OF TRANSACTION

Q. Please describe the structure of the proposed securitization transaction.

A. A diagram of the structure of the proposed securitization transaction is provided in Document No. WO-1. The proposed transaction will involve the creation by FPL of SPE, a new, wholly-owned special purpose entity which will be a Delaware limited liability company. SPE will serve as the issuer. FPL, pursuant to authorization granted it by the Commission in a financing order, will create and sell certain bondable storm-recovery property to SPE (including the right to impose, collect and receive Storm Bond Repayment Charges and to true-up the rates per kWh applicable to such charges, and the rights and interests under the financing order related thereto). SPE will finance its purchase of the storm-recovery property by selling storm-recovery bonds. The bondable storm-recovery bonds will be amortized by the Storm Bond Repayment Charges collected by SPE. The transaction will be structured to achieve the highest rating from each of the three major bond rating agencies. The criteria of these agencies are discussed in Section IV below.

Q. What is the reason for using SPE rather than issuing the storm-recovery bonds directly from FPL?

A. The credit ratings of operating companies, like FPL, are affected by factors related to their historical and ongoing business. Securitization allows a specific stream of revenue to be isolated in a manner that insulates investors from credit risks of the sponsor, so that securities issued by a special purpose entity can achieve credit ratings higher than the debt of the sponsor. In the case of securitizations under Section 366.8260, Florida Statutes (Section 366.8260), the

statutory provisions creating the storm-recovery property and the true-up mechanism are designed to permit the storm-recovery bonds to be issued with triple-A ratings. As obligations solely of SPE, the storm-recovery bonds will be non-recourse to FPL, as a result of which credit analysts may view the assets and liabilities of SPE as conceptually separable from those of FPL, even though they will likely be consolidated under generally accepted accounting principles.

Q. What characteristics of SPE are essential to ensure the highest possible credit rating?

A. SPE will be formed for the limited purpose of acquiring the bondable storm-recovery property, issuing the storm-recovery bonds, and performing other activities related thereto. SPE should not be permitted to engage in any other activities and should have no assets other than the bondable storm-recovery property and related assets to support its obligations under the storm-recovery bonds. Obligations relating to the storm-recovery bonds should be SPE's only significant liabilities. These restrictions on the activities of SPE and other restrictions on the ability of FPL to take action on SPE's behalf are structured to maximize SPE's bankruptcy remoteness so that it should be unaffected by a bankruptcy of FPL. As long as the storm-recovery bonds remain outstanding, SPE should be managed by a board of managers including at least one independent manager with generally no ownership of, or organizational affiliation with, FPL. FPL as sole member of the LLC would appoint the board of managers and there is generally no fixed term for such an appointment. SPE should not be permitted to amend the provisions of its organizational documents that ensure bankruptcy remoteness without the consent of the independent manager. Similarly, SPE should not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or

insolvency proceedings against it, or to consolidate or merge without the consent of the independent manager. These and other restrictions are set forth in more detail in the LLC agreement, a form, which sets out in substantial detail the terms and conditions of the proposed agreement, is attached as Document No. WO-9. Other bankruptcy remoteness restrictions that the rating agencies may require should also be included in SPE's organizational documents.

SPE should be established with a sufficient level of capital from FPL. The level used in other rate reduction bond transactions and recommended for this transaction is 0.5% of the principal amount of the bonds to be issued. This level of capital contribution is generally necessary to achieve triple-A ratings and to facilitate receipt of an opinion to the effect that the storm-recovery bonds will be treated as debt of FPL and that the sale of bondable storm-recovery property to the issuer will not be treated as a taxable event, in reliance upon Rev. Proc. 2005-62, issued by the Internal Revenue Service. The capital subaccount which holds the equity contribution is discussed further in subsection III. D. of this testimony.

Q. Describe the transaction between FPL and SPE.

A. Concurrent with the issuance of the storm-recovery bonds, FPL will transfer to SPE certain of FPL's rights under the financing order, including the right to impose, collect, and receive Storm Bond Repayment Charges approved in the financing order. This transfer will be structured so as to qualify as a true sale.

Q. How will the principal be amortized in the securitization?

A. Storm Bond Repayment Charges will provide SPE a steady stream of revenue more suitable for amortization of principal over time than for payment in full at

maturity. Self-amortization is necessary because it reflects the underlying obligations.

Self-amortization complicates the marketing of bonds. Not all investors are looking for investments with the same average life. Some investors may prefer three-year notes while others are looking for investments with a five- or ten-year life. To permit self-amortization while permitting investors to focus on bonds with the particular lives they prefer, bonds are typically split among several tranches (*i.e.* time-tranched), each with a different expected maturity. In this case, under market conditions as of November 30, 2005, we would recommend tranches with initial principal amounts, first scheduled principal payment dates, expected maturities, legal final maturities and average lives as shown in Document No. WO-2. On any given payment date, interest is paid on all of the bond tranches, but principal is paid to amortize only the tranche that is "next in line" to be retired. Thus, for example, in Document No. WO-2, the Tranche A-1 notes have an expected principal repayment window from 2/1/07 to 2/1/10 and an average life of 2.0 years (from 8/1/06), the Tranche A-2 notes have an expected principal repayment window from 2/1/10 to 2/1/13 and an average life of 5.0 years, and so on. This time-tranching enables both shorter-term investors (such as banks) and longer-term investors (such as pension funds) to participate in the same securitization transaction, each in the maturity range that is most suitable for its investment objectives.

Q. Will a trustee be engaged in this securitization?

A. Yes. Securitizations typically involve one or more trustees who act on behalf of investors. The assets of the SPE are typically pledged to the trustee, who perfects a first-priority security interest in them. In the event the sponsor or

servicer defaults on its servicing obligations, the trustee is empowered to contract with another party to perform those obligations. Additional duties of the trustee in this securitization, are discussed in subsection F. below.

B. STORM-RECOVERY BONDS

Q. Are storm-recovery bonds a recognized form of securitization?

A. Storm-recovery bonds are a type of rate reduction bonds, which are a well-recognized form of securitization. Most rate reduction bonds to date have been issued for the purpose of stranded cost recovery, and because of their close association with the transition to competitive generation markets, bonds issued for that purpose are commonly known as transition bonds. From the perspective of a bondholder, however, the type of cost being recovered from the proceeds of issuance is largely irrelevant, and so there is no material difference in credit or structure between one type of rate reduction bond and another. Document No. WO-4 is a list of prior rate reduction bond transactions. During the last seven years, there have been at least 34 issuances of rate reduction bonds in 10 states for a total of more than $36 billion. All of these rate reduction bonds were explicitly authorized by statute and regulatory action, which enabled that creation of a clear, irrevocable property right in the bondable storm-recovery property (with all the constitutional and contractual protections of property rights), true sale of the property to an SPE, and perfection of a first-priority security interest in the property by a trustee.

Q. Are rate reduction bonds generally regarded as safe investments?

A. Yes. The integrity of the rate reduction bond structure has been demonstrated by the fact that all three rating agencies maintained their triple-A ratings on rate

reduction bonds sponsored by Pacific Gas & Electric Company in California in spite of challenges to the underlying legislation, highly volatile electricity markets, and the eventual bankruptcy of the sponsor.

Q. How are rate reduction bonds priced?

A. The exact interest rate is a function of the market conditions at the time the bonds are sold and is influenced not only by general market conditions but by such factors as the number and quality of competitive bond offerings coming to market at the same time. The process by which this rate is determined is described in detail in my discussion of the new-issue distribution process in Section II, above.

Q. How did you estimate the interest rates for the bonds to be sold in this transaction?

A. Yields on ABS have tended to track the swap curve[1] more closely than the Treasury curve in recent years. As a result, pricing in relation to the swap curve (*e.g.* X basis points above a point on the swap curve that corresponds to the average life of the bonds) has been the convention for the ABS market for about five years. Credit Suisse's ABS trading desk quotes current markets for rate reduction bonds in these terms. (Although corporate bond yields are quoted as a spread to a benchmark Treasury, it is increasingly common for participants in that market to compare these yields to the swap curve, colloquially referred to as "LIBOR".) The interest rate for each of the bonds in the structure in Document No. WO-2 was estimated by adding the Credit Suisse-quoted rate

[1] The swap curve is the schedule by maturity of the fixed rates that money center banks are willing to exchange for LIBOR in interest rate swaps of the related maturities. "LIBOR" is an acronym for "London Interbank Offered Rate," which is the rate of interest at which banks borrow money from other banks in the London Interbank market. LIBOR is a widely used benchmark for short-term interest rates. LIBOR is a floating rate and the fixed rate into which it can be converted in a liquid market through interest rate swaps of a given maturity is known as the "swap rate" for that maturity.

reduction bond spread for the related average life to the swap rate at the corresponding point on the swap curve as of close of business November 30, 2005. These estimates relate to then-current market conditions and I have made no estimate for any other possible market conditions. It should be noted that the current rate reduction bond market is characterized by swap rates and credit spreads that are relatively low by historical standards.

Q. How will the storm-recovery bonds be structured in this transaction?

A. The storm-recovery bonds will be issued in multiple tranches (or classes), with average lives that range from two to ten years (approximately). The scheduled maturity of the bonds will match the intended recovery period at twelve years from the date of issuance, although the legal final maturity will be fourteen years. Document No. WO-2 shows a list of the tranches which Credit Suisse would recommend under market conditions as of November 30, 2005, by first scheduled principal payment date, scheduled maturity, legal final maturity, initial principal amount, average life and estimated coupon for these storm-recovery bond structures.

As shown in Document No. WO-2, the indicative structure has four tranches of bonds with average lives of 2.0, 5.0, 7.0 and 10.0 years, respectively. The bond yield is 5.06%, the all-in cost of funds is 5.19% and the estimated Storm Charge is $1.3787 per megawatt hour.

Q. Are these characteristics subject to revision?

A. Yes, all of these characteristics are subject to change in response to market conditions. Additionally, if market interest rates rise to such an extent that the Storm Charge average retail cents per kWh charge would exceed the 2004

Storm Restoration Surcharge now in effect, the aggregate amount of the storm-recovery bonds could be reduced to an amount whereby the initial average retail cents per kWh Storm Charge would not exceed the average retail cents per kWh 2004 Storm Restoration Surcharge currently in effect as discussed in Mr. Dewhurst's testimony.

Q. Why do you recommend a twelve-year recovery period?

A. There are conventional average lives for new-issue rate-reduction bond tranches, to which investors have been the most receptive, those being 5, 7 and 10 years. There is typically a shorter average life tranche as well, which may have either a 2- or 3-year average life.

A longer recovery period, such as fifteen years, would result in a tranche with an average life in the 12-14 year range. There have been rate reduction bond tranches with average lives in this range, but they have a more limited following in the investor community, so they tend to trade at higher yields than the shorter tranches. A shorter recovery period, such as ten years, would result in a tranche with an average life in an unconventional "betwixt and between" area in the 7.5-9.5 year range. While certainly salable, such a tranche may attract interest from fewer investors than one in the 5-, 7- or 10-year area.

Q. Why does the legal maturity exceed the scheduled maturity?

A. The legal maturity of each tranche is two years later than its scheduled maturity, and Storm Charges may be imposed during this time if for any reason the related tranche is not retired on schedule. Because of the inherent volatility of electric utility revenues, it is necessary to have a period after the scheduled maturity during which Storm Charges can be collected to make up any shortfall.

Although two years may not be necessary to collect any shortfall, for meeting all the rating agencies' triple-A stress tests, two years is recommended.

Q. How was the time-tranching determined?

A. FPL instructed Credit Suisse to develop a storm-recovery bond structure based on FPL's sales forecasts for the period from August 1, 2006 to the scheduled maturity. The structure provides for level average retail rates per kilowatt hour over the period. The level rate in each case will produce revenues (based on the sales forecast) which will have two components: a storm bond repayment charge, sufficient to retire the storm-recovery bonds with interest over the indicated timeframe (Storm Bond Repayment Charge), and a storm bond tax charge, sufficient to pay the related taxes at an assumed rate of 38.575% (Storm Bond Tax Charge, together with the Storm Bond Repayment Charge, collectively, Storm Charges). The bonds in the structure can be characterized as "conventional" rate reduction bonds in that they pay current interest to all tranches and pay some principal amortization on each payment date.

The proposed bond structure has overall amortization schedules and time-tranching that reflect level average retail rates, the retail sales forecasts that were provided, and our efforts to balance the competing goals of minimizing the amortization window of each tranche (to make the tranche more desirable for investors), maximizing the tranche size (to promote liquidity in the secondary market), and targeting average lives that are most broadly sought after in the current market. Each of the bond structures is designed to be reasonably expected to result in lower overall costs or would avoid or significantly mitigate rate impacts to customers as compared with alternative methods of financing or

recovering storm-recovery costs and storm-recovery reserve consistent with the given recovery period and load forecast.

Q. Will the storm-recovery bonds pay fixed rates or floating rates?

A. Most rate reduction bonds have been fixed-rate bonds. Fixed rates are necessary to permit the likely costs and benefits to be evaluated in advance and to maintain roughly level storm bond recovery rates (subject to variances in actual sales from forecast). It is possible, however, to issue (or effectively issue) floating-rate notes if the floating interest rate is then converted to a fixed rate through use of an interest rate swap. This can occur either by (i) execution of an interest rate swap between SPE and a highly-rated swap counterparty or (ii) execution of a interest rate swap agreement between an investor (who seeking the floating rate payment) and a swap counterparty. The method described in clause (ii) would not result in any additional risk to FPL customers, as the agreement runs between the investor and the swap counterparty and is arranged outside of the transaction (with no obligations related to the interest rate swap affecting SPE). Three rate reduction bond transactions have included floating-rate tranches using interest-rate swaps within the transaction, as noted on Document No. WO-4. Under such a swap, for each interest payment on a floating-rate tranche, SPE would be required to pay a fixed rate to the swap counterparty, and the swap counterparty, in turn, would pay the storm-recovery bond's floating rate to SPE, which would then use those revenues to pay floating rates to the bondholders. The role of the swap in the overall securitization transaction is depicted in Document No. WO-1.

Q. Does the interest rate swap within the transaction create added risks for customers?

A. Yes, in three ways: counterparty default, termination payments and delays in scheduled redemption of the floating rate tranche.

Q. How is the risk of counterparty default addressed?

A. In any transaction in which triple-A rated securities are issued, each of the rating agencies imposes minimum ratings requirements on any swap counterparty. While the details differ by rating agency, these minimums are generally "AA-" or equivalent long-term ratings and/or "A-1/P-1/F-1" short-term ratings. If a swap counterparty falls below its minimum ratings requirements at any time, it is required (at its own expense) either to replace itself or post collateral (or a guaranty or letter of credit) to secure its obligations.

Q. What are termination payments?

A. If a swap terminates for any reason, regardless of which party was affected by the event that caused the termination, a termination payment is owed to the extent that one party's position is "in the money," meaning that other counterparties would pay for the right to step into that party's shoes. Generally speaking, if interest rates have risen since the interest rate swap was entered into, the floating rate payor will owe a termination payment to the fixed rate payor, and similarly, if interest rates have fallen, the fixed rate payor will owe a termination payment to the floating rate payor. It is likely that any such termination payments would be offset by finding another counterparty willing to pay cash for the right to enter into the interest rate swap at the original fixed rate, but it is not a certainty.

Q. Why are customers at risk if there are delays in the scheduled redemption of the floating rate tranche?

A. An interest rate swap typically requires payment of interest on a principal amount specified in the swap instrument. While there is a scheduled amortization for each tranche of bonds, the actual amortization of any tranche of storm-recovery bonds is dependent on the flow of revenues, which are affected by weather and other variables. There is a risk that the amortization will not occur on schedule and, thus, that the principal balance may be higher than was scheduled. If this occurs, the floating-rate payment from the swap party may not be adequate to satisfy SPE's actual payment obligation. This risk arises only if there are undercollections, which would result from sales that are significantly below forecast over an extended period, well beyond normal sales forecast variances. The capital and reserve subaccounts provide some buffer against undercollection.

While it is rare for rate reduction bonds to fall behind their scheduled amortization,[2] it nonetheless is a risk that has to be recognized. Because SPE will have no assets other than the right to collect Storm Bond Repayment Charges, this added risk must be borne by either the swap counterparty through a "balance guaranteed swap" (in which case the swap counterparty will charge extra), or by customers (who would have to pay the differential between the floating rate and the fixed (swap) rate on the excess balance).

[2] I am aware of only two issuers of rate reduction bonds that have failed to make every principal payment as scheduled, both in a state which experienced unusually mild weather in the year immediately following the issuance of the bonds, and in which there was no provision for interim true-ups. These failures to pay scheduled principal resulted in additional interest cost to customers at a fixed rate of interest, because no floating rate notes were involved in these cases.

C. CREDIT ENHANCEMENT

Q. Is any form of credit enhancement necessary to achieve triple-A ratings for storm-recovery bonds?

A. Yes. It is a given in the electric utility industry that the actual stream of utility revenues varies with weather and other factors. The primary forms of credit enhancement necessary to convert this potentially volatile revenue stream into a stream that supports triple-A ratings are provided by Section 366.8260 (in the form of the required true-up and the state pledge), the SPE structure, and the waterfall (as discussed in subsection E. below), with the capital and reserve subaccounts designed to smooth out variability in collections.

Q. What other kind of credit enhancement could be used to reduce the cost of the storm-recovery bonds?

A. Various types of additional credit enhancement (such as insurance, financial guaranty, and letters of credit) may be used in some securitizations to raise the rating or reduce interest costs. Given the credit enhancement already provided by Section 366.8260 and the proposed transaction structure, however, I am not aware of any form of additional credit enhancement that could be expected to reduce the cost of funds of the storm-recovery bonds by more than the fees that would be charged for the enhancement.

D. ACCOUNTS

Q. Please describe the different kinds of accounts that will be created for the transaction.

A. An indenture between SPE and a corporate trustee, a form, which sets out in substantial detail the terms and conditions of the proposed agreement, is attached as Document No. WO-5, will provide for the creation of a collection account for each series of storm-recovery bonds and for the division of the collection account into at least three subaccounts: (1) general subaccount, (2) capital subaccount, and (3) reserve subaccount.

Q. Please describe the general subaccount.

A. All remittances of Storm Bond Repayment Charges by the servicer will be remitted into the general subaccount for distribution to bondholders and other parties in accordance with a priority of payments (or waterfall) as described in subsection E. below.

Q. Please describe the capital subaccount.

A. The capital subaccount serves as a buffer against undercollection in any particular six-month period which might cause a delay in the payment of scheduled principal. This subaccount also plays an important role in assuring investors that the storm-recovery bonds are debt and not a participation interest in the storm-recovery property, which would be less attractive to investors.

The capital subaccount will be funded by FPL on or prior to the closing of the transaction through a capital contribution in an amount equal to at least 0.5% of the initial principal balance of the storm-recovery bonds issued. If an additional

series of storm-recovery bonds is issued under another indenture, an additional capital contribution will be made to a similar capital subaccount established under the new indenture. As noted previously, this level of capital contribution is generally necessary to achieve triple-A ratings and to facilitate receipt of an opinion of counsel to the effect that the storm-recovery bonds will be treated as debt of FPL and that the sale of storm-recovery property to SPE will not be treated as a taxable event, in accordance with the recently issued Revenue Procedure.

The capital subaccount can be used to make interest and principal payments (or to pay other operating costs) if Storm Bond Repayment Charges are inadequate. Any withdrawals from the capital subaccount to pay interest or principal due to bondholders will be repaid through future remittances of Storm Bond Repayment Charges.

Since the capital subaccount represents the ownership interest of FPL in SPE, to the extent minimum required balances are maintained and scheduled interest, principal, and other amounts are paid on a timely basis, FPL is entitled to the investment income earned by this subaccount during the term of the bonds. Upon payment in full of any series of the bonds, the amount held in the capital subaccount in excess of the required capital level may be released to the SPE and ultimately returned to FPL.

Q. Please describe the reserve subaccount.

A. The reserve subaccount will receive deposits of any amounts remaining after payments of interest, scheduled principal, expenses of the issuer, and required

deposits into the capital subaccount. Amounts on deposit in the reserve subaccount may be drawn to pay interest, principal, and certain expenses if necessary. Any balance in the reserve subaccount after making all required payments will be applied to reduce future Storm Bond Repayment Charges. Because this subaccount is funded by Storm Bond Repayment Charges, any amounts in the reserve subaccount at the time the bonds have been paid off will be paid by SPE to FPL. Application of these funds is discussed further in the testimony of Mr. Davis.

Q. How will the amounts in these subaccounts be invested?

A. Amounts on deposit in each of the subaccounts will be invested by the trustee in "eligible investments." As defined in the indenture (which definition is included in Master Definitions, a form, which sets out in substantial detail the terms and conditions of the proposed agreement, is attached as Document No. WO-10 to the petition), eligible investments will typically include U.S. Government securities, certain bank deposits, banker's acceptances, and security repurchase obligations from institutions with long-term ratings of at least "Aa3/AA/AA" (from Moody's, Standard and Poor's, and Fitch, respectively), or short-term ratings of at least "P-1/A-1+/F-1+", respectively, the commercial paper of similarly-rated commercial or financial entities, and investments in "Aaa/AAA/AAA"-rated money market funds.

Q. How will earnings in each of the subaccounts be allocated?

A. Earnings in each of the subaccounts will be allocated as follows:

General Subaccount: Earnings will be applied to make payments in the order defined by the payment waterfall as discussed below. To the extent not required

to make payments of bond interest or principal, to replenish drawings on the capital subaccount at its required level or to fund issuer expenses, the earnings will be transferred to the reserve subaccount and used to reduce future Storm Bond Repayment Charges.

Capital Subaccount: To the extent not required to make payments of bond interest or principal, replenish drawings from the capital subaccount, or fund issuer expenses, the earnings will be remitted to FPL.

Reserve Subaccount: To the extent not required to make payments of bond interest or principal or to build or replenish drawings on the capital subaccount, the earnings will be reflected in the calculation of required true-up adjustments and thus effectively will be paid to customers through reduced Storm Bond Repayment Charges.

E. PAYMENT WATERFALL

Q. What is a "payment waterfall"?

A. Securitization transactions have only a single source of revenue to meet all of the issuer's obligations. To provide investors and the rating agencies adequate confidence that funds will in fact be applied to pay interest and principal, it is necessary to specify an order in which available funds will be applied on each payment date. This order is often referred to as a "payment waterfall." The payment waterfall is further described in the indenture.

Q. Please explain the payment waterfall for amounts in the general subaccount.

A. On each payment date (so long as no event of default has occurred), the trustee will allocate or pay all amounts on deposit in the general subaccount of the collection account in the following priority:

1. payment of the trustee's fees, expenses and any outstanding indemnity amounts relating to that series, the total amount of which will be fixed as specified in the indenture;[3]

2. payment of a pro rata portion of the administration fee, which will be a fixed amount specified in the administration agreement between SPE and FPL, and a pro rata portion of the fees of SPE's independent manager, which will be in an amount specified in an agreement between SPE and SPE's independent manager;[4]

3. payment of the servicing fee, which will be a fixed amount specified in the servicing agreement for that series, plus any unpaid servicing fees from prior payment dates;[5]

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[3] Trustee payments are senior in the waterfall to ensure that, even if collections of storm bond repayment charges were to be lower than forecast, sufficient funds would be available to pay the trustee for the provision of its services and thus ensure the ongoing protection of bondholder interests. While it is necessary to provide for recovery of all indemnity amounts owed to the trustee, the rating agencies insist that only a specified portion (usually set at a specified dollar amount) have priority over principal and interest payments. As a result, the waterfall provides for payment of indemnities in priority 1 of the waterfall (up to a specified maximum), with any remaining indemnity amounts relegated to priority 8.

[4] Like priority 1 these fees are also senior to principal and interest because their payment is necessary to ensure continued operation and bankruptcy remoteness even in stressed scenarios.

[5] The rationale for the senior position of servicer fees in the waterfall, again, is to ensure payment of this amount even if collections are lower than anticipated, thereby ensuring ongoing provision of these necessary services.

4. payment of all of SPE's other ordinary periodic operating expenses relating to that series (or the pro rata portion of such operating costs, if not directly attributable to the series), such as accounting and audit fees, rating agency fees, legal fees and certain reimbursable costs of the servicer under the applicable servicing agreement;[6]

5. payment of the interest then due on the storm-recovery bonds (and pro rata among bonds if there is deficiency), and payment of amounts, if any, specified in the prospectus supplement that are payable in respect of interest to the swap counterparty under any interest rate swap agreement;[7]

6. payment of the (i) principal then required to be paid on the storm-recovery bonds at final maturity or upon redemption or acceleration, (ii) payment of the principal then scheduled to be paid on that series of storm-recovery bonds (and pro rata among bonds if there is deficiency) and (iii) any swap termination payments that result from (a) SPE failure to pay within applicable grace period as a result of insufficient collection of Storm Bond Repayment Charges, (b) breach of the swap agreement by SPE or the trustee where the swap counterparty is not the defaulting party or the solely affected party, (c) SPE bankruptcy (under the related interest rate swap agreement), (d) SPE merger without assumption (under the related interest rate swap agreement), (e) failure or termination of the security interest under the indenture, or (f)

[6] Like priorities 1, 2 and 3 these fees are also senior to principal and interest because their payment is necessary to ensure continued operation and bankruptcy remoteness even in stressed scenarios.

[7] It is customary in the asset-backed and rate reduction bond markets that interest be due immediately after expenses, since rating agencies typically require confidence in the issuer's ability to make timely payments of interest even in stressed scenarios.

termination of the interest rate swap agreement due to (i) a tax event, (ii) illegality, (iii) a tax event upon merger, (iv) acceleration of the rate reduction bonds (after an event of default) or (v) a change in applicable laws that makes the interest rate swap agreement unenforceable.[8]

7. payment of any amounts payable to any other credit enhancement providers with respect to the storm-recovery bonds;[9]

8. payment of any of SPE's remaining unpaid operating expenses and any remaining amounts owed pursuant to the basic documents, including all remaining indemnity amounts owed to the trustee;[10]

9. replenishment of any amounts drawn from the capital subaccount;[11]

10. payment of any swap termination payments (other than those described in clause 6 above), will be payable only after the bonds have been paid in full; [12]

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[8] It is customary for principal to be paid immediately following interest. Swap termination payments, which follow principal payments in the normal course, should not be subordinated to principal in the event of an acceleration. Such subordination would be inconsistent with the objective of presenting SPE as a triple-A credit risk, in order to minimize the fixed rate quoted on any interest rate swaps.

[9] Although none are anticipated, this is another customary waterfall priority.

[10] Operating expenses contemplated here are exceptional or unanticipated items. They are placed at this point in the waterfall so that rating agencies have comfort that the items that are prior to interest and principal payments can be reasonably anticipated.

[11] Since the capital subaccount is a credit enhancement to the transaction, this account is usually replenished near the bottom of the waterfall. Any shortfall in the required balance will be reflected in the next succeeding true-up calculation.

[12] Termination payments by SPE which are triggered by counterparty default are placed in a junior position.

11. release to SPE of an amount equal to investment earnings on amounts in the capital subaccount, so long as no event of default has occurred and is continuing;[13] and

12. allocation of the remainder, if any, to the reserve subaccount.

Q. What will happen if the funds in the general subaccount are insufficient to make these payments?

A. If, on any payment date, funds on deposit in the general subaccount are insufficient to make the payments or transfers contemplated by priorities 1 through 10, amounts on deposit in the capital and reserve subaccounts will be drawn to make the payments as follows:

1. from the reserve subaccount for shortfalls in payments contemplated by priorities 1 through 10; and

2. from the capital subaccount for shortfalls in payments contemplated by priorities 1 through 8.

F. ROLES OF TRANSACTION PARTIES

Q. What services has Credit Suisse, in its role as financial advisor, provided with respect to FPL's petition for a financing order?

A. Credit Suisse, in its role as financial advisor, (1) has assisted FPL in evaluating the relative merits of alternative securitization structures; (2) has prepared financial models to assess various structural alternatives, Storm Bond

[13] Again, since the capital subaccount is for credit enhancement purposes, such "sweeps" typically occur only after all other required payments have been made.

Repayment Charges, and the economic impact thereof; (3) has analyzed the structure in the context of legal and market requirements; (4) has assisted in drafting documents filed in connection with the financing order petition; and (5) is providing this expert testimony during the financing order application process.

Q. What services will Credit Suisse provide following the issuance of a financing order?

A. Credit Suisse, in its role as the financial advisor, will assist FPL in (1) finalizing a transaction structure that is consistent with the order; (2) reviewing and revising transaction documentation; and (3) managing all aspects of the rating agency process, including (a) on-site due diligence, (b) development of a cash flow model designed to calculate Storm Charges and storm-recovery bond payments, (c) preparation of "stress test" cash flow analyses, (d) review of business issues related to legal opinions, and (e) coordination and resolution of all rating agency issues, including required credit enhancement levels to achieve triple-A ratings. If the bonds are to be sold via a negotiated underwriting, all of these activities will be taken over by the lead underwriter when that party is selected.

Q. What is the role of the lead underwriter?

A. In addition to the services listed above, the lead underwriter, as head of the underwriting syndicate, will perform a number of services in connection with the issuance of the storm-recovery bonds, including (1) preparation of marketing materials; (2) arrangement of marketing efforts, including investor conference calls, electronic and physical roadshows, and other marketing activities; (3) evaluation of market conditions with respect to a fixed or floating-rate offering; (4) coordination of pre-marketing efforts; (5) coordination of price

talk with the underwriting syndicate; (6) coordination of prospectus distribution; (7) transaction pricing; (8) assistance with the issuance advice letter; and (9) distribution of bonds and transaction proceeds at closing. The lead underwriter for this transaction has not been selected.

Q. What is the role of the underwriting syndicate?

A. The underwriting syndicate will purchase and market the bonds. Given the size of the transaction, a properly structured underwriting syndicate is essential to ensure the most advantageous pricing. The syndicate should be large enough to ensure broad distribution yet small enough to provide proper financial incentive to its members. The size of the proposed securitization transaction would likely involve two to three co-managers. Each syndicate member should be active in the rate reduction bond market.

Q. What is the role of the servicer?

A. FPL will be the initial servicer pursuant to an agreement with SPE. As servicer, FPL will have day-to-day responsibility for calculating, billing, and collecting the Storm Bond Repayment Charges and remitting the collections to the trustee for deposit into the collection account. From time to time, the servicer will prepare reports detailing the results of such activities. The servicer will prepare, file, and process the periodic Storm Bond Repayment Charge true-up adjustments required by Section 366.8260 and the financing order. The duties, rights, and obligations of the servicer are more fully described in the servicing agreement, a form, which sets out in substantial detail the terms and conditions of the proposed agreement, is attached as Document No. WO-7.

Q. How will the servicer be compensated?

A. The servicer will be paid a servicing fee from the Storm Bond Repayment Charges on each semi-annual payment date. As long as FPL is the servicer, the servicing fee will be an annualized amount equal to 0.05% of the initial principal amount of the storm-recovery bonds. This is the amount most commonly specified for the servicing fee in rate reduction bond transactions. It is important for this fee to be adequate compensation for the services provided, in order to create a bona fide arm's-length relationship between FPL and SPE and thereby preserve the integrity of the bankruptcy-remote structure of SPE.

A higher servicing fee likely will have to be paid if it is ever necessary to replace FPL as servicer. Therefore, the draft financing order authorizes successor servicer fees as high as 0.6% without additional Commission approval but would permit fees higher than 0.6% only with Commission approval. The higher servicing fees for successor servicers is required to assure the rating agencies that a successor servicer can be obtained should one be required. Rating agencies expect that a successor servicer would require a substantially higher fee than FPL, because it would not have systems and monthly billing processes already in place. The servicing fee to be paid to FPL is consistent with the servicing fee in numerous rate reduction bond transactions. Credit Suisse has researched the servicing fees in all rate reduction bonds from January 2001 to September 2005, which constitute 20 issues involving 16 utilities in California, Connecticut, Massachusetts, Michigan, New Hampshire, New Jersey, Pennsylvania and Texas. In most cases, servicing fees paid to the sponsoring utility are either 0.05%, 0.09%,

0.1%, or 0.125% of the initial principal amount of the notes. In five cases, the utility receives 0.25% of the outstanding principal amount of notes.

Q. What are the eligibility criteria for a third-party successor servicer and how will such a successor servicer be compensated?

A. Selection of a third-party successor servicer will be made by the trustee, either at its own discretion or as it may be directed by holders of a majority of the outstanding principal balance of the bonds, subject to rating agency approval, following the occurrence of a servicer termination event under the servicing agreement. (FPL may not resign voluntarily.) Typically, trustees and rating agencies are primarily concerned with performance-related criteria, and secondarily with financial strength. A third-party successor servicer must be able to perform the calculation, billing, collection, filing, and other duties that the servicer is required to provide under the servicing agreement, must enter into a servicing agreement substantially similar to the servicing agreement with the servicer being replaced, at fees not to exceed a specified maximum, and must agree not to resign. Appointment of a successor servicer (including a servicer that is an alternate energy supplier in the event of a fundamental regulatory change in Florida) must also not cause the rating agencies to reduce or withdraw the current ratings of any tranche of storm-recovery bonds for which the replacement would act as servicer. In all rate reduction bond transactions from January 2001 to September 2005, the maximum successor servicer fees are set at 1.25% to 1.5% of the outstanding principal amount, except with respect to Texas issuers, where they are set at 0.6% of the initial principal amount.

Q. What is the role of the trustee?

A. The trustee performs duties as a fiduciary of the bondholders. The trustee receives and processes Storm Bond Repayment Charges from the servicer, calculates the amounts due to bondholders on each payment date, allocates collections in accordance with the payment waterfall for the transaction, invests amounts on deposit in each subaccount in eligible investments, and provides periodic reports that detail account activity and balances to various parties. The duties, rights, and obligations of the trustee are more fully described in the indenture. The trustee is selected by the sponsor based on experience, qualifications and fee structure.

G. CERTAIN UPFRONT BOND ISSUANCE COSTS

Q. Please describe and provide an estimate of the upfront bond issuance costs for underwriting fees.

A. Credit Suisse has estimated the underwriting as a percentage of the face amount of the storm-recovery bonds to be 0.50% for the indicative structure. To arrive at this estimate, Credit Suisse applied the weighted average underwriting fees taken from its database of publicly-available underwriting fee information on all rate reduction bond transactions. Underwriting fees are charged on a tranche-by-tranche basis and typically vary with the average life of the tranche (higher for longer tranches and lower for shorter ones). The weighted average disclosed fees across all rate reduction bonds range from approximately 0.25% on 1-year average-life tranches to 0.625% on 13-year average-life tranches. Credit Suisse applied these weighted average fees to the tranches set forth in Document No. WO-2 to obtain its estimates.

Q. Please describe and provide an estimate of the upfront bond issuance costs for original issue discount.

A. Original issue discount (OID) is the difference between the total par amount of the securities issued and the actual price paid by investors. For planning purposes, it is assumed that the bonds will be issued without OID. However, as a practical matter, it is likely that some level of OID will be needed to provide yields that match the exact market conditions at issuance. In fact, a certain amount of OID is typical of rate reduction bonds and ABS generally. The amount of OID is generally less than 0.5% and well within the range that is classified as *de minimis* by the IRS (meaning small enough that the investor does not have to set up an accrual schedule for inclusion of the discount into income). For example, the initial prices to the public of the 2005 transition bond offering by Public Service Electric & Gas were 99.98600%, 99.98049%, 99.96503% and 99.95365 respectively, on the four tranches of bonds. These types of discounts arise because (a) the swap curve is typically quoted to four decimal places while bond coupons are typically stated to two decimal places and (b) many initial offerings settle without accrued interest on a mid-month date, which results in an "odd first period." Under these circumstances, pricing at exactly 100% is not possible. Investors tend to prefer a lower coupon with a discount over a higher coupon with a premium, so the convention is to round the coupon down at pricing to produce a slight discount. Assuming that there will be no early redemption of the bonds, the yield to investors and the cost of funds to the issuer are not affected by these adjustments.

IV. RATING AGENCY PROCESS

A. RATING AGENCY CRITERIA

Q. What are the principal criteria for achieving triple-A ratings for the storm-recovery bonds?

A. The transaction will be structured to achieve the highest rating by each of the three major rating agencies: "Aaa" by Moody's, "AAA" by Standard and Poor's, and "AAA" by Fitch. To achieve these ratings, the transaction must exhibit certain characteristics:

1. There must be a "true sale" transfer of the storm-recovery property from FPL to SPE with a first-priority perfected security interest in the transferred bondable storm-recovery property granted in favor of the trustee.

2. SPE must be structured to ensure that it will be bankruptcy-remote from FPL.

3. The financing order authorizing the issuance of the storm-recovery bonds must recognize the irrevocability of the financing order; authorizing the imposition, and collection, and adjustment from time to time, of a non-bypassable Storm Charge; and approve a satisfactory true-up mechanism to adjust Storm Charges. The true-up mechanism must be mandatory and provide for adjustment at least once every six months, and as frequently as quarterly if requested by the rating agencies.

4. The statute authorizing the financing order must contain a "state pledge" to the effect that no action will be taken or permitted by the State or the Commission that would impair the value of the storm-recovery property

or impair or diminish the rights to impose, collect or adjust Storm Bond Repayment Charges.

5. The transaction should include credit enhancement in the form of the capital and reserve subaccounts. It is expected that the capital subaccount will be required to be funded in an amount equal to 0.5% of the initial principal amount of the storm-recovery bonds, which is not only consistent with prior rate reduction bonds but also consistent with the requirements for favorable federal tax treatment.

6. The expected final maturity of the bonds should be sufficiently shorter than the legal final maturity to ensure sufficient funds will be collected to pay the interest and principal regardless of the economic, weather, or other conditions that exist prior to the maturity date of the bonds.

7. There should be cross-collateralization among rate classes allowing collection shortfalls to be allocated among all classes through the true-up mechanism.

8. The rating agencies will need to be satisfied that the servicer is qualified to perform its billing, collection, and related responsibilities and that it is of sufficient financial substance and stability that it can be expected to perform such services for the life of the bonds. The rating agencies will also require that a qualified successor servicer can and will be appointed following certain servicer defaults.

9. The rating agencies will want assurance that the servicing fee will be adequate to obtain a replacement servicer in the unlikely event that transfer of servicing is required.

10. All of these requirements are properly provided for in the proposed structure of the transaction and draft financing order.

B. RATING AGENCY CASH FLOW ANALYSIS

Q. What is the process for and what will be the focus of the rating agency cash flow analysis?

A. In order to receive a triple-A rating from each of the three major rating agencies, FPL and SPE will need to demonstrate that the proposed transaction satisfies each rating agency's cash flows analysis required for a triple-A credit rating. This is accomplished by delivery to each rating agency of a "base case" sales forecast and bond structure (which reflects the Storm Charges), the proposed replacement servicer fee, historical delinquency and charge-off data, historical data and discussion of FPL's sales forecasting and historical and projected data regarding FPL's customer base. The rating agencies will review this information and the "base case", and develop appropriate assumptions for multiple stress scenarios (typically two to three initially per rating agency, with additional scenarios provided upon review of initial results). Each stress scenario will contain multiple assumptions and is designed to assist the rating agency in evaluating the ability of the transaction cash flows to withstand the impact of negative events without experiencing an event of default. To encompass the various risks that could potentially affect the cash flows, the rating agencies have developed methodologies which apply variance percentages to cash collections. Risk factors which have been identified include economic recession, demographic shifts, extreme weather conditions, increased

use of self-generated energy sources, loss of significant industrial customers, and errors in forecasting.

While each rating agency has its own methodology for developing these stress scenarios and related assumptions, and such stress scenarios and related assumptions may differ depending on the terms of a particular transaction, there are a number of items which have been of common focus. These items include, but are not limited to:

1. Forecast Variance. Stress assumptions typically include either setting a number that represents a variance from an forecast well in excess of the sponsor's 10 year historical experience or by applying a multiplier to the sponsor's highest historical forecast variance over the last 10 years. This variance is then applied year over year, either cumulatively or with periodic increases. Stress assumptions may also include oscillating the forecast variance from undercollection to overcollection from year to year.

2. Net Write-offs. Stress assumptions typically include either setting a number that represents a write-off amount well in excess of the sponsor's 10 year historical experience or by applying a multiplier to the sponsor's highest historical forecast over the last 10 years.

3. Delinquencies. Stress assumptions typically include delaying or "stretching out" expected collections by as much as two months.

4. Replacement Servicer Fee. This assumption is based on a servicer default and the appointment of a replacement servicer who is entitled to a increased servicer fee under the terms of the transaction. The stress

involves setting the servicing fee as if the replacement servicer were in place through the remaining term of the transaction.

Q. How will the rating agencies respond to a customer's ability to avoid paying the Storm Charge by disconnecting from FPL?

A. When rating other rate reduction bonds, the rating agencies have raised concerns where customers are permitted to avoid or by-pass the imposed Storm Charge by self-generation and disconnection from or discontinuance of the services of the utility. In the case of transition bonds, most states have limited the customer's ability to do this as part of the enabling deregulation legislation, but some, such as Illinois, Michigan and Pennsylvania, have not. In such cases, the rating agencies will include assumed levels of self-generation as part of the stress tests described above. The rating agencies will review the practical limitations on FPL's customers to avoid or by-pass the Storm Charge through self-generation. We would expect rating agencies to conclude that any incidence of self-generation is likely to be small, given current and reasonably anticipated technology, and the stress tests will show that the true-up mechanism and cross collateralization to other customers will compensate for such incidence.

V. PRE-ISSUANCE PROCESS

Q. How will FPL facilitate Staff's review of the structuring, marketing and pricing of bonds to ensure compliance with the financing order?

A. At least thirty days prior to the proposed date for the launch of the sale of a series of bonds, FPL will submit to the Commission's staff (Staff) revised forms of the financing documents, together with any registration statement and term sheet to be used in connection with the offering of the storm-recovery bonds and forms of any legal opinions to be issued in connection with the transaction if requested by Staff. Such documents and opinions shall be subject to such additions, deletions, and modifications as may be necessary to reflect the pricing, structure, and similar terms of the issuance of the storm-recovery bonds and such other final terms as may be reasonably be left to negotiation prior to the issuance, including such final terms as may reasonably be required by the rating agencies.

At least five business days prior to the proposed launch date, FPL will submit to Staff (i) a draft issuance advice letter, reflecting the preliminary bond structuring information for the proposed issuance, including expected and final maturities, over-collateralization levels, any other credit enhancements; and reflecting revised estimates of the upfront bond issuance costs proposed to be financed from proceeds of the bonds and estimates of debt service and other ongoing costs (including, the taxes recoverable through the Storm Bond Tax Charge) for the first collection period and (ii) a draft of the initial true-up letter, which will include the projected initial Storm Bond Repayment Charges and Storm Bond Tax Charges for each customer class resulting from the preliminary bond structuring information and the application of the formula approved in the

financing order, as well as the draft tariff sheets implementing the storm charges.

If Staff determines based on review of the preliminary bond structuring information that the launch of the sale of the bonds would not be in compliance with the financing order, then by 5:00 p.m. on the business day that is two business days prior to the proposed launch date specified in the filing accompanying the preliminary bond structuring information, Staff will provide FPL actual notice in writing and set forth the reasons for such disapproval, in which case FPL will be permitted to revise the proposed launch date, if necessary, and/or to file amended preliminary bond structuring information.

VI. CONCLUSION

Q. Please summarize your testimony.

A. My testimony has provided an overview of asset backed securities and the details of the key characteristics of, and the rationale for, the structure of the proposed securitization transaction. Based on current market conditions, I recommend that the storm-recovery bonds be issued in four tranches, which are designed to maximize investor demand, with average lives that range from two to ten years. I also discussed the credit enhancement necessary to support triple-A ratings or reduce interest costs.

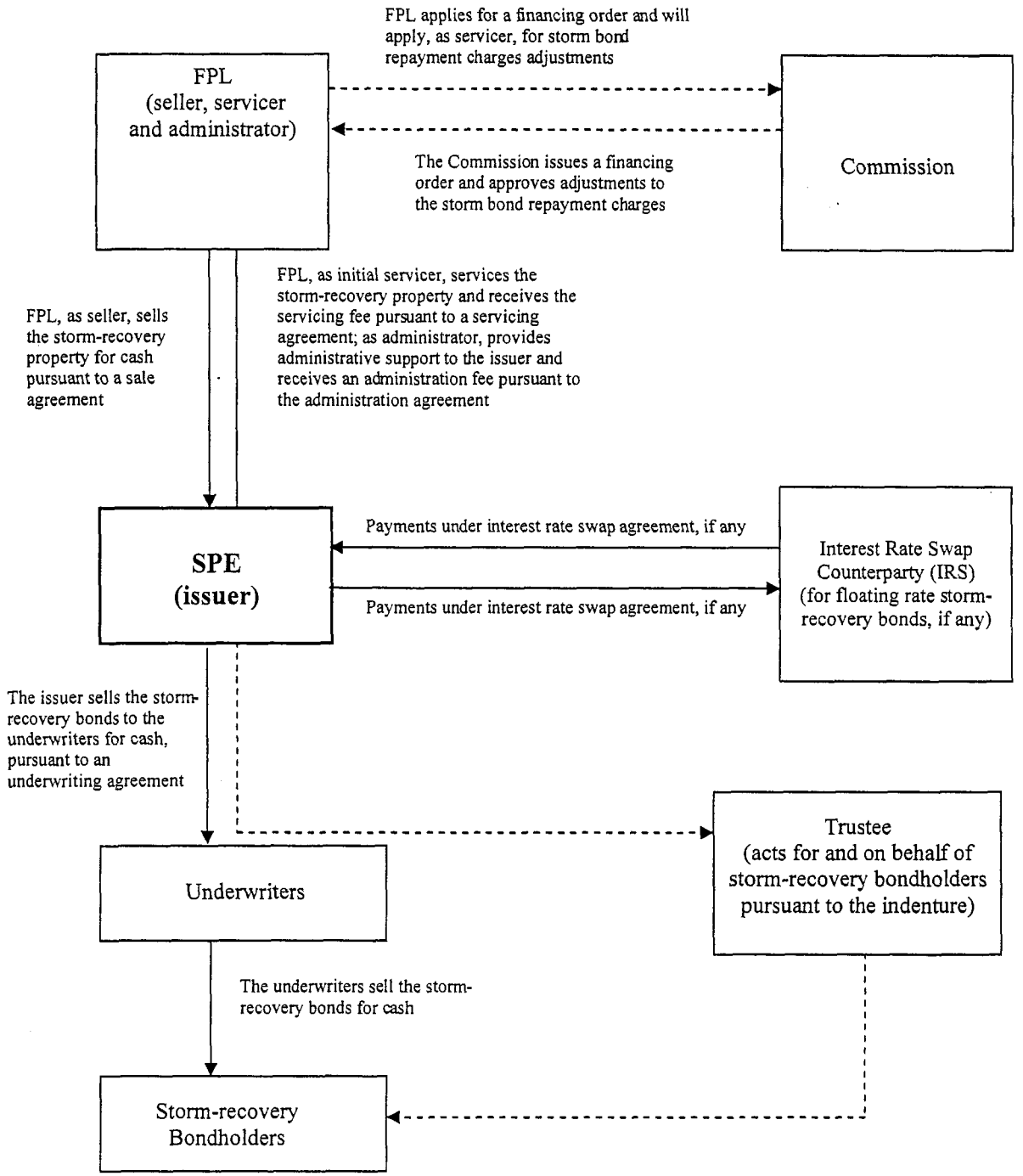
I described the collection account and the various subaccounts that will be created for the disbursement of storm bond repayment charges collected from customers. I described the payment waterfall for the collection account. I also described the roles of the financial advisor, lead underwriters, the underwriting syndicate, the servicer, and the trustee in the proposed transaction, and provided estimates of upfront bond issuance costs associated with underwriting fees and original issue discount.

Finally, my testimony demonstrated that the proposed securitization transaction has been carefully designed to benefit customers by achieving the highest possible rating from each of the major rating agencies, discussing the key requirements to achieve this.

Q. Does this conclude your direct testimony?

A. Yes.

DIAGRAM OF PROPOSED SECURITIZATION TRANSACTION



PRO-FORMA BOND STRUCTURE

Tranche	First Scheduled Principal Payment	Final Scheduled Principal Payment (Expected Maturity)	Legal Final Maturity	Initial Principal Amount	Weighted Average Life (in years)	Estimated Coupon
A-1	02/01/07	02/01/10	02/01/12	$201,000,000	2.0	4.79%
A-2	02/01/10	02/01/13	02/01/15	$240,000,000	5.0	4.91%
A-3	02/01/13	02/01/14	02/01/16	$106,000,000	7.0	5.00%
A-4	02/01/14	08/01/18	08/01/20	$503,000,000	10.0	5.13%
Total/Weighted Averages:				$1,050,000,000	7.0	5.06%

Bond yield: 5.06%
All-in cost of funds: 5.19%
Average retail estimated storm charge: $1.3787 per mWh

Note: Bond structure, payment dates, maturities, principal amounts, average lives, coupons, bond yield, all-in-cost of funds and estimated storm charge are subject to revision.

BOND CASH FLOWS

Payment Date	Beginning Balance	Interest Paid	Principal Redeemed	Total Cash Flow	Ending Balances
08/01/06	1,050,000,000	-	-	-	1,050,000,000
02/01/07	1,050,000,000	26,257,900	22,705,774	63,348,982	1,027,294,226
08/01/07	1,027,294,226	25,714,097	27,398,662	70,445,208	999,895,564
02/01/08	999,895,564	25,057,899	33,375,413	79,519,171	966,520,151
08/01/08	966,520,151	24,258,558	30,282,370	73,684,351	936,237,780
02/01/09	936,237,780	23,533,295	36,514,660	83,105,266	899,723,121
08/01/09	899,723,121	22,658,769	33,095,261	76,663,953	866,627,859
02/01/10	866,627,859	21,866,137	39,258,044	85,904,342	827,369,815
08/01/10	827,369,815	20,912,929	35,814,960	79,345,787	791,554,855
02/01/11	791,554,855	20,033,672	42,113,141	88,719,978	749,441,714
08/01/11	749,441,714	18,999,794	38,110,438	81,169,695	711,331,276
02/01/12	711,331,276	18,064,183	44,577,436	90,762,367	666,753,840
08/01/12	666,753,840	16,969,807	40,517,293	83,058,071	626,236,547
02/01/13	626,236,547	15,975,107	47,157,827	92,874,172	579,078,720
08/01/13	579,078,720	14,803,918	43,082,163	85,067,795	535,996,557
02/01/14	535,996,557	13,726,864	49,919,287	95,121,589	486,077,270
08/01/14	486,077,270	12,467,882	45,726,201	87,036,256	440,351,070
02/01/15	440,351,070	11,295,005	52,759,192	97,313,100	387,591,878
08/01/15	387,591,878	9,941,732	48,476,884	88,988,223	339,114,994
02/01/16	339,114,994	8,698,300	55,687,428	99,483,568	283,427,566
08/01/16	283,427,566	7,269,917	51,331,315	90,963,427	232,096,251
02/01/17	232,096,251	5,953,269	58,723,931	101,681,969	173,372,320
08/01/17	173,372,320	4,447,000	54,272,276	92,928,399	119,100,043
02/01/18	119,100,043	3,054,916	61,846,388	103,866,982	57,253,655
08/01/18	57,253,655	1,468,556	57,253,655	94,988,773	-

RATE REDUCTION BOND TRANSACTIONS TO-DATE

STATE	UTILITY	DATE	AMOUNT (IN MILLIONS)
Texas	CenterPoint Energy	12/16/05	$1,851
California	Pacific Gas & Electric	11/03/05	$845
Pennsylvania	West Penn Power	09/22/05	$115
New Jersey	Public Service Electric & Gas	09/09/05	$102
Massachusetts	Nstar (fka Boston Edison)	02/15/05	$674
California	Pacific Gas & Electric	02/03/05	$1,887
New Jersey	Rockland Electric	07/28/04	$46
Texas	TXU Electric Delivery	05/28/04	$790
New Jersey	Atlantic City Electric	12/18/03	$152
Texas	Oncor Electric Delivery	08/14/03	$500
New Jersey	Atlantic City Electric	12/11/02	$440
New Jersey	Jersey Central Power and Light	06/04/02	$320
Texas	Central Power and Light	01/31/02	$797
New Hampshire	Public Service of New Hampshire	01/17/02	$50
Michigan	Consumers Energy	10/31/01	$469
Texas	Reliant Energy	10/17/01	$749
Massachusetts	Western Massachusetts	05/15/01	$155
New Hampshire	Public Service of New Hampshire	04/20/01	$525
Connecticut	Connecticut Light & Power	03/27/01	$1,440*
Michigan	Detroit Edison	03/02/01	$1,750
Pennsylvania	PECO Energy	02/15/01	$805
New Jersey	PSE&G	01/25/01	$2,500*
Pennsylvania	PECO Energy	04/27/00	$1,000
Pennsylvania	West Penn Power	11/16/99	$600
Pennsylvania	Pennsylvania Power & Light	07/29/99	$2,420
Massachusetts	Boston Edison	07/14/99	$725
California	Sierra Pacific Power	04/08/99	$24
Pennsylvania	PECO Energy	03/18/99	$4,000*
Montana	Montana Power	12/22/98	$63
Illinois	Illinois Power	12/10/98	$864
Illinois	Commonwealth Edison	12/07/98	$3,400
California	Southern California Edison	12/04/97	$2,463
California	San Diego Gas & Electric	12/04/97	$658
California	Pacific Gas & Electric	11/25/97	$2,901
Total			**$36,080**

*Transaction included one or more floating-rate tranche