

Docket No. 150171-EI:

Duke Energy Florida, Inc.

Petition for issuance of nuclear asset-recovery financing order, by Duke Energy Florida, Inc. d/b/a Duke Energy.

Witness: **Direct Testimony of REBECCA KLEIN**, appearing on behalf of the staff of the Florida Public Service Commission

Date Filed: September 4, 2015

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **DIRECT TESTIMONY OF REBECCA KLEIN**

3 **DOCKET NO. 150171-EI**

4 **September 4, 2015**

5 **Q. Please state your name and business address.**

6 A. Rebecca Klein, Klein Energy LLC, 611 S. Congress Avenue, Suite 125, Austin, Texas
7 78704.

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

9 A. I am Principal of Klein Energy LLC, which specializes in regulatory representation
10 and strategic entry and/or growth in domestic and international power markets.

11 **Q. Briefly provide an overview of your education and professional experience.**

12 A. I am a graduate of Stanford University with a Bachelor of Arts degree in Human
13 Biology. I received my Master's degree in National Security Studies at Georgetown
14 University, and earned a Juris Doctorate at St. Mary's University in San Antonio, Texas. I am
15 admitted to practice law in Texas. I am also a retired Lieutenant Colonel in the U.S. Air Force
16 Reserve. I was awarded the National Defense and Southwest Asia Service Ribbons for service
17 in Saudi Arabia during Desert Shield/Desert Storm.

18 I served as a Commissioner and also as Chairman of the Public Utility Commission of Texas
19 (PUCT) from 2001-2004, during which time I helped oversee the competitive restructuring of
20 the State's \$36 billion power market. Prior to my appointment to the PUCT in 2001, I served
21 as a Policy Director for then-Governor George W. Bush, engaging in a variety of statewide
22 issues and projects in the areas of telecommunications; energy, housing, technology, and
23 banking. I was also Chairman and Vice Chairman of the Board of the Lower Colorado River
24 Authority, a public power entity that owns generation and transmission assets and manages
25 hydro and other water assets in Texas. From 1988 to 1993 I worked in Washington, DC. I

1 served as a Legislative Liaison Action Officer for the Secretary of the Air Force; as Associate
2 Director, Office of Presidential Personnel in the White House of President George H.W. Bush;
3 and as an Associate Director of the U.S. Trade and Development Agency, during which time I
4 oversaw agency accounts in various multi-lateral banks. Presently, I sit as a member of the
5 Board of Directors for a publicly traded utility, Avista Corporation, as well as a private
6 corporation responsible for commercialization of renewable energy technologies.

7 **Q. Please describe the nature of your relationship with Saber Partners.**

8 A. I am a member of the Advisory Board of Saber Partners, LLC (Saber Partners or
9 Saber). Members of the Advisory Board make themselves available to Saber's senior
10 management from time to time to give their perspective on issues in which Saber is involved.
11 Members of the Advisory Board have no management or operational responsibility for Saber
12 Partners. I often share my knowledge with Saber management on regulation and energy issues
13 from a public policy point of view and from both the state and federal level perspective based
14 on my extensive experience in those areas. From time-to-time I also share with Saber my
15 experience as Chair of the PUCT.

16 **Q. Are you sponsoring any exhibits in this case?**

17 A. Yes, I am sponsoring Exhibit No. ____, (RK-1), Issuance Advice Letter.

18 **Q. What is the purpose of your testimony?**

19 A. My testimony will explain the importance and the benefits of adhering to a **lowest**
20 **overall cost** standard throughout all stages of structuring, marketing and pricing the proposed
21 nuclear asset-recovery bonds. My testimony is based on my direct experience with three
22 utility securitization transactions while Chairman of the PUCT. I will also discuss why the
23 PUCT chose to retain a financial advisory team that was proactive and that would act as a co-
24 lead with the utility throughout the transaction lifecycle. I will explain the benefits of having a
25

1 Commission-directed financial advisor act as an equal decision maker in collaboration with
2 the utility involved in the securitization transactions.

3 **Q. During your term with the PUCT, were any utility securitization transactions**
4 **completed?**

5 A. Yes. Three transactions were completed with active commission oversight during my
6 tenure at the PUCT. Two transactions were done pursuant to financing orders issued by my
7 predecessors and one pursuant to a financing order that I approved as a member of the PUCT.
8 These transactions involved the issuance of securitized utility bonds referred to as “transition
9 bonds.” Approximately \$747 million in transition bonds were issued for Reliant Energy in
10 2001, \$797 million in transition bonds were issued for Central Power and Light in 2002, and
11 \$1.3 billion in transition bonds were issued for Texas Utilities in 2003 and 2004.

12 **Q. Were those Texas “transition bonds” similar to the nuclear asset-recovery bonds**
13 **proposed by Duke Energy Florida, Inc. in this proceeding?**

14 A. Yes. One overarching similarity between the nuclear asset-recovery bonds proposed
15 by Duke Energy Florida, Inc. (DEF) and the Texas “transition bonds” is that ratepayers bear
16 the full economic burden of repaying the bonds. This particular similarity is important
17 because, as my testimony will explain herein, ratepayer interests in securitization bond
18 transactions would not be represented but for the standards and actions incorporated into the
19 transaction process by the regulator.

20 **Q. Prior to those three “transition bond” transactions, did the PUCT specifically**
21 **approve any other types of financings for utilities under its jurisdiction?**

22 A. No. Financings and financing costs were under each utility’s general cost of capital
23 proceeding and were subject to a retrospective prudence review process by the PUCT in
24 general rate cases. The utilities and their shareholders were directly accountable for all their
25 debt costs and their capital structure under the general review process. If either item (debt

1 level or cost of debt) was found to be imprudent, an adjustment would be made to the cost of
2 capital.

3 **Q Did the PUCT treat “transition bond” transactions differently than it treated**
4 **traditional ratemaking methods?**

5 **A. Yes.**

6 **Q. Why were the Texas “transition bonds” treated differently?**

7 A. The normal incentives to minimize waste and inefficiencies that are inherent in
8 traditional rate cases are absent with ratepayer-backed “transition bonds.” Therefore, the
9 PUCT’s authority to correct any problems it discovered was limited. The PUCT was required
10 by state law to issue an irrevocable financing order in which the utility is insulated from any
11 and all costs associated with the financing. The PUCT was also required to approve an
12 irrevocable process called a “true-up mechanism” that committed the PUCT periodically to
13 raise or lower the charge that supports the bonds to whatever level is necessary to pay the
14 bonds’ principal and interest on time. In addition, the State of Texas and the PUCT were
15 required to pledge to the bondholders never to take or permit any action to be taken that would
16 interfere with bondholders’ right to payment. This regulatory guarantee is an extraordinary
17 use of the powers of state regulation. The irrevocable financing order; the true-up mechanism;
18 and the pledge to bondholders are all similar to legal obligations that the Florida statute
19 requires for nuclear asset-recovery bonds. These key commitments were adhered to in Texas
20 and are essential in securing a AAA bond rating, which in turn mitigates debt costs and helps
21 realize a lowest overall cost structure for ratepayers, as explained in further detail below.

22 **Q. Why was an irrevocable financing order required with a true-up mechanism?**

23 A. The Texas legislature required it because the Texas utilities that sponsored the Texas
24 securitization legislation advised that a true-up mechanism was necessary to allow the
25 “transition bonds” to be rated by the credit rating agencies at the highest category, “AAA”,

1 and make the “transition bonds” more attractive to investors. The PUCT’s independent
2 financial advisor advised the PUCT that this was a correct analysis - that a true-up mechanism
3 was necessary to allow the “transition bonds” to be rated by the credit rating agencies at the
4 highest category, “AAA”.

5 **Q Why did the Texas legislature and the PUCT believe that a “AAA” rating was**
6 **necessary?**

7 A. The Texas utilities advised the Texas legislature and the PUCT that a “AAA” bond
8 rating would result in the lowest possible interest rate on the “transition bonds.” The PUCT’s
9 financial advisor supported this analysis. A “AAA” rating demonstrates to potential investors
10 that the “transition bonds” are not very risky. The lower the risk, the lower the interest rate
11 commanded by underwriters and investors. Consequently, the credit rating is an important
12 factor that allowed “transition bonds” to be sold to investors at the lowest possible interest rate
13 at a given point in time and in turn at the lowest cost to Texas ratepayers.

14 **Q. Did the PUCT impose other conditions or provisions in its financing orders to**
15 **improve the marketability of Texas “transition bonds” and lower the overall cost to**
16 **ratepayers?**

17 A. Yes. The PUCT directed its financial advisor in each transaction in which I was
18 involved to be actively engaged throughout the transaction process in order to adhere to a
19 lowest cost standard. Examples of the proactive initiatives the PUCT financial advisor
20 undertook include: 1) insisting that any servicing fees in excess of actual incremental costs be
21 rebated or credited to ratepayers; 2) identifying any potential conflicts that may arise between
22 the utility, the underwriter and the utility’s advisor; 3) participating fully and in advance in all
23 aspects of structuring, marketing and pricing the “transition bonds”; and 4) challenging any
24 decision it believes might not result in lowest costs to ratepayers. Hyman Schoenblum and
25 Paul Sutherland have outlined more fully in their testimony these conditions and provisions

1 that were adopted and implemented in connection with the Texas “transition bonds” to lower
2 the costs to ratepayers in Texas.

3 **Q. In what ways do you believe your experience with Texas “transition bonds”**
4 **should inform the Florida Commission as it prepares a financing order for the proposed**
5 **nuclear asset-recovery bonds?**

6 A. Absent a pro-active approach by the Florida Commission and its independent financial
7 advisor, Florida ratepayers will not be represented meaningfully in the process of structuring,
8 marketing and pricing the bonds. Without adherence to a lowest overall cost standard by the
9 Florida Commission and its independent financial advisor, it will be difficult to hold utilities
10 and underwriters of nuclear asset recovery bonds accountable for any failure to achieve the
11 best possible outcome for ratepayers.

12 **Q. In your opinion, should these other conditions or provisions be imposed to**
13 **improve the marketability of Florida nuclear asset-recovery bonds and lower the cost to**
14 **Florida ratepayers?**

15 A. Yes. In my experience with three securitized utility bond transactions in Texas, the
16 PUCT was able to realize an average ratepayer savings for the three transactions of \$23
17 million, as compared to the pricing of other utility securitizations during the same time frame.
18 See Exhibit No. ____ (HS-1), attached to witness Schoenblum’s testimony. I believe that
19 these substantial ratepayer savings resulted directly from the PUCT’s steadfast adherence to a
20 lowest cost standard that was fully aligned with ratepayer interests. Further, these ratepayer
21 savings are directly attributable to the fact that the PUCT and its financial advisor were
22 actively involved in developing and implementing the terms, conditions and provisions of
23 each facet of the transaction process. The testimony of Paul Sutherland explains in more
24 detail how these transactions priced relative to other investor-owned utility securitizations.

25

1 **Q. Did the Texas statute which authorized utility securitizations direct the PUCT to**
2 **apply a standard to ensure that benefits from the legislation and the financing order to**
3 **Texas ratepayers would be maximized?**

4 A. Yes. The Texas statute required the PUCT to ensure that the structuring and pricing of
5 the securitized “transition bonds” resulted in the lowest securitized charges consistent with
6 market conditions and the terms of the financing order.

7 **Q. How does a lowest securitized charge standard compare to a “lowest overall cost”**
8 **standard?**

9 A. “Lowest overall cost” is more comprehensive because it also takes into account the
10 refunding or crediting of other rates and charges to prevent unintended windfall profits to the
11 utility. For example, as discussed later in my testimony, in applying a “lowest overall cost”
12 standard, a regulatory commission might direct the utility to provide a refund or a credit
13 against other rates and charges to prevent unintended windfall profits to the sponsoring utility
14 without breaching the statutory pledge not to reduce the securitized charge. Otherwise, these
15 standards are the same.

16 It might be necessary to pay higher up-front bond issuance costs to achieve lower interest
17 costs on securitized bonds. If so, then the benefit of lower interest rates must be weighed
18 against the increased principal amount needed to pay the extra issuance costs. That trade-off
19 would be reflected in the amount of securitized charges needed to pay total debt service on the
20 securitized bonds. This is an important aspect of the “lowest overall cost” standard. This
21 standard, as applied to every element of the transaction process, enhances the probability of
22 significantly mitigating costs to the ratepayers.

23 **Q. Why is a “lowest cost” or “lowest overall cost” standard important?**

24 A. A lowest overall cost standard sets the appropriate benchmark on behalf of the
25 ratepayer. I fully acknowledge that there are no absolutes in this world. Nevertheless, the

1 lowest overall cost standard is a prudent and reasonable objective that should be treated as the
2 “guiding star” in every phase of the transaction cycle not only for the Florida Commission, but
3 also for the utility.

4 **Q In the absence of a specific statutory mandate, what would you have done as a**
5 **PUCT Commissioner?**

6 A. The same thing. Even if this statutory mandate had not been included in the Texas
7 legislation, I would have pursued the lowest cost to ratepayers for the very simple reason that
8 this was the PUCT’s fundamental responsibility to ratepayers under our general statutes. I
9 would have felt particularly strongly about this in a situation where ratepayer interests are not
10 clearly aligned with interests of the sponsoring utility and where ratepayer interests are
11 otherwise unrepresented.

12 **Q. Are ratepayer interests clearly aligned with DEF’s interests in this case?**

13 A. No. In utility securitization transactions generally, the utility has an interest in closing
14 the transaction as expeditiously as possible, even if that requires the utility to settle for less
15 than the lowest overall cost to ratepayers. In each of the securitization bond transactions in
16 which I was involved, the utility was to receive hundreds of millions of dollars but without
17 any direct or indirect obligation to pay it back. The utility’s interests were already protected
18 by the nature of the transaction. While the utility had a general interest in keeping overall
19 customer rates low, the utility had another, more immediate and compelling interest in getting
20 the proceeds as quickly as possible. I have no reason to believe that DEF’s interest in this
21 transaction would be any different.

22 **Q. Does the Florida statute authorizing securitization of nuclear asset-recovery costs**
23 **have an expressly stated requirement that DEF strive to achieve the “lowest overall**
24 **cost”?**

25

1 A. At least for some purposes, yes. I have reviewed the Florida statute authorizing
2 nuclear asset recovery costs. After nuclear asset-recovery bonds have been issued, the Florida
3 statute directs the Commission to determine if costs incurred by the sponsoring utility in fact
4 resulted in the “**lowest overall costs**” that were reasonably consistent with market conditions
5 at the time of the issuance and the terms of the financing order. The Florida statute authorizes
6 the commission to disallow all incremental issuance costs in excess of the “lowest overall
7 costs” by requiring the sponsoring utility to make a credit to the capacity cost recovery clause.
8 The Florida statute also specifically authorizes the Commission to engage outside consultants
9 and counsel to assist the Commission in making this “lowest overall cost” determination.

10 In my view, and based on my oversight of three securitized utility bond issues as Chair of the
11 PUCT, it will be difficult or perhaps even impossible for the Commission to make this after-
12 the-fact determination of “lowest overall costs” with confidence unless 1) the Commission
13 directs DEF to strive to achieve a “lowest cost standard” throughout the bond issuance process
14 in this case, and 2) the Commission’s staff and financial advisor are involved as joint decision
15 makers in all aspects of the structuring, marketing and pricing of the bonds.

16 **Q. How did the PUCT protect the public interest and assure itself that it met its**
17 **legislative duty?**

18 A. For the three Texas “transition bond” transactions I oversaw as Chair of the PUCT, we
19 established a process of active and involved oversight throughout the transaction lifecycle.
20 The PUCT was a joint decision maker with the sponsoring utility in all matters relating to the
21 structuring, marketing, and pricing of the “transition bonds.” We expected the utility to work
22 on a collaborative basis with PUCT staff and the PUCT’s financial advisor to ensure a
23 successful transaction at the lowest overall cost to ratepayers.

24 PUCT staff and the PUCT’s independent financial advisor also participated actively and were
25 joint decision makers with the utility in the process of structuring, marketing and pricing the

1 “transition bonds.” In addition, the PUCT required a detailed issuance advice letter process
2 and certification of what was done during the transaction, the choices made and the efforts
3 expended, explaining how these efforts led to the lowest cost to ratepayers.

4 **Q. Do you believe the utility securitization transactions which you oversaw as**
5 **Chairman of the PUCT were successful in maximizing benefits to Texas ratepayers?**

6 A. Yes.

7 **Q. What is the basis for your belief?**

8 A. The Texas financing orders required the utility to file a detailed set of analyses and
9 representations called an “issuance advice letter” about the pricing of the bonds, documenting
10 the benefits of the transaction to ratepayers. The PUCT also established a detailed procedure
11 of active due diligence on the part of its staff and expert advisors. These staff and expert
12 advisors were assigned to present to the PUCT their review of the issuance advice letter once
13 filed, as well as their assessment of whether the structuring, marketing, and pricing of the
14 “transition bonds” in fact achieved the lowest costs to ratepayers consistent with market
15 conditions and the terms of the applicable financing order. For each transaction, the PUCT
16 noticed a hearing within two business days after pricing for the purpose of issuing a stop order
17 if the PUCT was not convinced that the lowest cost objective in fact had been achieved.
18 Throughout the period leading up to pricing, and continuing for two business days after
19 pricing, the PUCT reviewed this pricing information with staff and decided whether to issue a
20 stop order. The due diligence review was both in real time and after-the-fact, so that the
21 PUCT’s hands would not be tied as a practical matter. The PUCT also reviewed specific
22 lowest cost certifications as to the structure, marketing, and pricing of the bonds from the
23 utility, as well as from the underwriters and from independent experts without any potential
24 conflicts of interest. The factors considered by the PUCT included (a) pricing relative to
25 benchmark securities; (b) pricing relative to other similar securities at the time of pricing, and

1 (c) the amount of orders received and from whom. Attached to my testimony as Exhibit ____
2 (RK-1) is an issuance advice letter used in one of the Texas “transition bond” transactions I
3 oversaw as Chair of the PUCT.

4 **Q. Did the PUCT use outside advisors in connection with those utility securitization**
5 **transactions?**

6 A. Yes. The PUCT realized it did not have the expertise on staff for this assignment, so
7 we brought in an expert independent financial advisor without any potential for conflicts of
8 interest. As part of this engagement, though its financial advisor, the PUCT also had the
9 benefit of outside legal counsel of Orrick, Herrington & Sutcliffe LLP. The PUCT acted by
10 and through these advisors to ensure that the ratepayers’ interests were protected.

11 **Q. Did the Texas securitization legislation specifically authorize the PUCT to retain a**
12 **financial advisor to assist the PUCT in ensuring that the interests of ratepayers would be**
13 **protected?**

14 A. No. But following a public hearing on this issue, the PUCT determined that it had
15 general authority sufficient to authorize retaining a financial advisor to assist the PUCT in
16 discharging its responsibility to protect the interests of ratepayers.

17 **Q. Did the PUCT and the PUCT’s financial advisor play an active role in**
18 **structuring, marketing, and pricing the securitized utility bonds?**

19 A. Yes. The PUCT’s financial advisor was diligent in identifying areas in which
20 ratepayer costs could be reasonably mitigated within the context of prevailing market
21 conditions. The PUCT’s financial advisor was also meticulous in providing the PUCT with
22 cost comparisons between the then-current transaction and the same costs in past
23 securitization transactions so that the PUCT could have a framework in which to make
24 decisions on terms, conditions, marketing and timing. This type of active participation on the
25

1 part of the financial advisor helped the PUCT meet its goal of ensuring the lowest cost
2 standard was met.

3 **Q. Did the PUCT require a lowest cost certification from its financial advisor?**

4 A. Yes. In the open meeting on February 25, 2000, the PUCT discussed the need for an
5 independent financial advisor to provide a fully accountable opinion as to the lowest cost of
6 funds as one item the Commission would examine in deciding whether to approve the
7 transaction immediately after pricing. The PUCT understood that the work required to give
8 that certification was substantial and could add to the cost of the transaction. However, the
9 PUCT believed the benefits would exceed the costs and that the certification, like an insurance
10 policy, would provide protection that our legislative mandate would be met.

11 **Q. Do you think it is appropriate for the Florida Commission to require**
12 **certifications that the lowest overall cost of funds has, in fact, been achieved?**

13 A. Yes. The PUCT lowest cost certifications were required from the sponsoring utility,
14 the lead underwriter and the PUCT's independent financial advisor in each of the three
15 "transition bond" issues I oversaw as Chair of the PUCT. I believe the requirement that these
16 lowest cost certifications be delivered was an important element in achieving superior results
17 in each of those three transactions for the benefit of Texas ratepayers.

18 **Q. In your experience, did the division of responsibilities proposed by Saber**
19 **Partners and the resulting incentive structure lead to a collaborative and collegial**
20 **process?**

21 A. Yes. It should be the same in this case as well, but only if the sponsoring utility and
22 the underwriters are dedicated to, and do not resist or undermine, a collaborative and collegial
23 process. But my answer would be "No" if the sponsoring utility and/or the underwriters are
24 determined to resist or undermine a collaborative and collegial process.

25

1 **Q. Can you provide an example of how that collaborative and collegial process**
2 **worked to the benefit of ratepayers in the Texas “transition bond” transactions?**

3 A. Yes. As explained in greater detail in the testimony of Paul Sutherland and the
4 testimony of Brian Maher, securitized utility bonds represent a joint and several liability of all
5 ratepayers. In addition, such bonds are structured with a true-up mechanism contained in the
6 financing order. This mechanism allows the nuclear asset-recovery charge to be adjusted
7 periodically pursuant to a pre-approved formula at least annually to insure the principal and
8 interest is paid according to schedule. Thus, if there were an unexpected decline in energy
9 sales for some period, the charge per KWH could be increased subsequently to make up for
10 the lower collections. The SEC registration statements pursuant to which a number of prior
11 securitized utility bonds have been offered have provided detail about the unusual and superior
12 credit quality of the securities. For example, the SEC registration statement for securitized
13 “transition bonds” issued in 2004 for the benefit of Texas Utilities included the following
14 language:

15 The broad-based nature of the true-up mechanism and the State Pledge will
16 serve to effectively eliminate, for all practical purposes and circumstances, any
17 credit risk to the payment of the transition bonds (i.e., that sufficient funds will
18 be available and paid to discharge the principal and interest obligations when
19 due).

20 Saber’s records indicate that this “credit risk” language was proposed by Hunton & Williams,
21 legal counsel to Texas Utilities. See Exhibit No. ___ (BAM-6), attached to Brian Maher’s
22 testimony.

23 **Q. What would maximize the chance of the process being collaborative and collegial**
24 **in the proposed nuclear asset-recovery bond transaction?**

25

1 A. The Commission should clarify that ultimate decision making authority for all aspects
2 of structuring, marketing and pricing the proposed nuclear asset-recovery bonds rests with the
3 Commission, acting through its staff and its financial advisor.

4 **Q. Did the process for structuring, marketing and pricing the three issuances of**
5 **securitized “transition bonds” which you oversaw as Chair of the PUCT, and which**
6 **applied many of the “best practices” described by Paul Sutherland, involve additional**
7 **legal and financial advisory fees?**

8 A. Yes. The PUCT retained an active financial advisor in each of those three
9 transactions, knowing full well that this likely would involve increased legal and financial
10 advisory fees.

11 **Q. With the benefit of hindsight, do you believe the decision to retain an active**
12 **financial advisor in each of those three Texas “transition bond” transactions benefited**
13 **Texas ratepayers, notwithstanding that those ratepayers were required to absorb most**
14 **or all of the costs of those increased legal and financial advisory fees?**

15 A. Yes. Post-issuance reports submitted to the PUCT by its financial advisor, the
16 underwriters and independent market observers all concluded that all three of those Texas
17 “transition bond” transactions provided substantial overall NET savings to Texas ratepayers.
18 Detailed information about those overall net savings to Texas ratepayers is included in the
19 testimony of Mr. Sutherland.

20 **Q. Do you have a conclusion as to whether the incremental costs of the active**
21 **financial advisor approach in Texas were justified by savings in overall costs?**

22 A. Yes. I believe the incremental costs of the active financial advisor approach in the
23 three Texas “transition bond” transactions I helped oversee as Chair of the PUCT were easily
24 justified by savings in other issuance costs and savings in interest costs.

25

1 **Q. Given your experiences in Texas, would you recommend to the Florida**
2 **Commission the “lowest overall cost” standard for guiding the Commission’s staff, the**
3 **Commission’s financial advisor and DEF to minimize the burden on ratepayers resulting**
4 **from this transaction?**

5 A. Yes.

6 **Q. Given your experiences in Texas, would you recommend that the Florida**
7 **Commission require its financial advisor to play an active role in connection with the**
8 **structuring, marketing, and pricing of nuclear asset-recovery bonds?**

9 A. Yes.

10 **Q. In your opinion, what other items should the Florida Commission consider in**
11 **deciding whether to approve this irrevocable financing order?**

12 A. The Florida Commission should also consider how the structuring, marketing and
13 pricing process will be pursued to maintain the public’s trust in the integrity of the process
14 itself. For example, potential conflicts between the utility and the underwriters should be
15 addressed by the Commission on behalf of ratepayers. The terms and conditions of how
16 nuclear asset-recovery bonds are sold through underwriters is also important. Millions of
17 dollars are at stake in the structuring, marketing and pricing of the bonds, so there should be
18 transparency and accountability throughout the process. Utilizing both an active independent
19 financial advisor and a lowest overall cost standard will assist substantially in realizing a bond
20 securitization process that successfully achieves the mandates of the Florida statutes and the
21 best possible result for ratepayers.

22 **Q. Does that conclude your testimony?**

23 A. Yes.

24

25

DOCKET No. 25230

JOINT APPLICATION FOR §
APPROVAL OF STIPULATION §
REGARDING TXU ELECTRIC §
COMPANY TRANSITION TO §
COMPETITION ISSUES §

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PUBLIC UTILITY
COMMISSION
OF TEXAS

ISSUANCE ADVICE LETTER

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Kirk R. Oliver
Treasurer and Assistant Secretary

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August 15, 2003

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Public Utility Commission of Texas
1701 N. Congress Avenue
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Austin, TX 78711-3326

Re: Docket No. 25230, *Joint Application for Approval of Stipulation Regarding TXU Electric Company Transition to Competition Issues*

Ladies and Gentlemen::

Enclosed is the Issuance Advice Letter filed pursuant to Ordering Paragraph 4 of the Financing Order issued on August 5, 2002 in the above-captioned proceeding. Also included are the IRS rulings required to be submitted pursuant to Ordering Paragraph 39.

It should be noted that recovery of transition charges will begin following issuance of the transition bonds as provided in tariffs approved in the Order issued on August 5, 2002, in Docket No. 25230.

Sincerely,

A handwritten signature in black ink, appearing to be "KRO", written over a circular scribble.

Kirk R. Oliver

cc: Chairman Rebecca Klein
Commissioner Brett Perlman
Commissioner Julie Parsley
Mr. Joseph Fichera
Ms. Martha Elvey
All parties of record in Docket No. 25230

PUC Docket No. 25230 Service List

AEP TEXAS CENTRAL COMPANY/AEP TEXAS NORTH
COMPANY/POLR POWER LP

RON FORD
AMERICAN ELECTRIC POWER COMPANY
STE 610
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CITIES

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GARLAND CITY OF

LAMBETH TOWNSEND
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PUC Docket No. 25230 Service List

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ISSUANCE ADVICE LETTER

August 15, 2003

ADVICE _____

THE PUBLIC UTILITY COMMISSION OF TEXAS

SUBJECT: ISSUANCE ADVICE LETTER FOR TRANSITION BONDS

Pursuant to the Financing Order adopted in *Joint Application for Approval of Stipulation Regarding TXU Electric Company Transition to Competition Issues*, Docket No. 25230 (the "Financing Order"), ONCOR ELECTRIC DELIVERY COMPANY (as successor in interest to TXU Electric Company, "Applicant") hereby submits, no later than the second business day after the pricing date of this series of Transition Bonds, the information referenced below. This Issuance Advice Letter is for the Oncor Electric Delivery Transition Bond Company LLC Transition Bonds, Series 2003-1, classes A-1, A-2, A-3, and A-4. Any capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

PURPOSE

This filing establishes the following:

- (a) the actual terms and structure of the Transition Bonds being issued;
- (b) confirmation of compliance with issuance standards;
- (c) the initial Transition Charge for retail users;
- (d) the identification of the Transition Property to be sold to a special purpose entity (the "SPE");
- (e) the identification of the SPE; and
- (f) that the Transition Bonds have been structured and priced in a manner that results in the lowest transition-bond charges consistent with market conditions and the terms of the Financing Order.

COMPLIANCE WITH ISSUANCE STANDARDS

The Financing Order requires Applicant to confirm, using the methodology approved therein, that the actual terms of the Transition Bonds result in compliance with the standards set forth in the Financing Order. These standards are:

1. The securitization of Qualified Costs will provide tangible and quantifiable benefits to ratepayers, greater than would be achieved absent the issuance of Transition Bonds (See Attachment 4, Schedule A);
2. The total amount of revenues to be collected under the Financing Order is less than the revenue requirement that would be recovered over the remaining life of

- the Stranded Costs using conventional financing methods (See Attachment 4, Schedule A);
3. The structuring and pricing of the Transition Bonds proposed by the Applicant in its Application will result in the lowest transition-bond charges consistent with market conditions at the time that the transition bonds are priced and the general parameters (including the protection of the competitiveness of the retail electric market) set out in this Financing Order (See Attachment 4, Schedule B);
 4. The amount securitized will not exceed the present value of the revenue requirement over the life of the proposed Transition Bonds associated with the securitized Regulatory Assets when the present value calculation is made using a discount rate equal to the interest rate on the Transition Bonds (See Attachment 4, Schedule C);
 5. The annual servicing fee payable to Applicant while it is serving as Servicer (or to any other Servicer affiliated with Applicant) shall not at any time exceed 0.05% of the original principal amount of the Transition Bonds of each series, except that the fee shall not be less than \$400,000 (See Attachment 2);
 6. The annual servicing fee payable to any other Servicer not affiliated with Applicant shall not at any time exceed 0.60% of the original principal amount of the Transition Bonds (See Attachment 2);
 7. The underwriting spread included in the Qualified Costs securitized under the Financing Order shall not exceed 0.480% of the principal amount of the Transition Bonds issued and sold (See Attachment 1);
 8. The sum of the up-front costs and the sum of the fixed operating expenses incurred or to be incurred in connection with the proposed transaction authorized by the Financing Order shall not exceed the amounts of the appropriate caps set forth in Appendix C to the Financing Order (See Attachments 1 and 2);
 9. The Transition Bonds will be issued in one or more series comprised of one or more classes or tranches having legal final maturities not exceeding 15 years from the date of issuance of such series (See Attachment 3);
 10. The amortization of the Transition Bonds shall be as described in the Financing Order (See Attachment 3); and
 11. The Applicant certifies to the Commission that the Transition Bonds have been structured and priced in a manner that results in the lowest transition-bond charges consistent with market conditions at the time that the transition bonds are priced and the general parameters (including the protection of the competitiveness of the retail electric market) set out in the Financing Order (See Attachment 4, Schedule B).

ACTUAL TERMS OF ISSUANCE

Transition Bond Series: Transition Bonds, Series 2003-1
Transition Bond Issuer: Oncor Electric Delivery Transition Bond Company LLC
Trustee: The Bank of New York
Closing Date: August 21, 2003
Bond Ratings: AAA by Standard & Poor’s Ratings Services
Aaa by Moody’s Investors Service
AAA by Fitch, Inc.
Amount Issued: \$500,000,000
Transition Bond Issuance Costs: See Attachment 1
Transition Bond Support and Servicing: See Attachment 2
Coupon Rate(s): See Below
Call Features: 5% Cleanup Call
(optional redemption after last scheduled payment date)
Expected Principal Amortization Schedule: See Attachment 3
Expected Final Maturity Date(s): See Below
Legal Final Maturity Date(s): See Below

	<u>Coupon Rate</u>	<u>Expected Final Maturity</u>	<u>Legal Final Maturity</u>
A-1	2.26%	02/15/2007	02/15/2009
A-2	4.03%	02/15/2010	02/15/2012
A-3	4.95%	02/15/2013	02/15/2015
A-4	5.42%	08/15/2015	08/15/2017

Payments to Investors: Semiannually, beginning February 16, 2004
Initial Annual Servicing Fee as a percent of the original Transition Bond principal balance: \$400,000 minimum (0.08%) See Attachment 2
Cumulative Overcollateralization amount for the Transition Bonds, as a percent of the original Transition Bond principal balance: 0.50%
Annual Overcollateralization funding requirements: See Attachment 3

Description of type, amount and maturity (if applicable) of outstanding debt and equity securities of Applicant to be redeemed or retired with proceeds of the Transition Bonds (to the extent known) as shown below:

Use of Proceeds (in \$000’s)

Oncor 7.875% FMB due 3/1/2023, callable 3/1/2003	223,770
Oncor 7.875% FMB due 4/1/2024, callable 4/1/2003	132,743
Oncor Common Stock Equity	123,262
Qualified Issuance Expenses (“QIE”)	19,845
Unused QIE to be carried over to Series 2004 Bonds	380
Total	<u>500,000</u>

INITIAL TRANSITION CHARGE

Table I below shows the current assumptions for each of the variables used in the calculation of the initial Transition Charges.

TABLE I
Input Variables For Initial Transition Charges

Applicable period: from August 21, 2003 to August 15, 2004
Forecasted retail kWh/kW sales for applicable period:

Residential	39,672,508,000 kWh
General Service – Secondary (Non-demand)	1,212,096,000 kWh
General Service – Secondary (Demand)	158,119,834 kW
General Service – Primary (Non-demand)	26,015,000 kWh
General Service – Primary (Demand)	21,032,413 kW
High Voltage Service	8,146,642 kW
Lighting Service	543,613,000 kWh
Instantaneous Interruptible	12,880,562 kW
Noticed Interruptible	10,659,455 kW

Transition Bond debt service for applicable period:	\$43,635,727
Servicing fees:	\$400,000
Percent of billed amounts expected to be charged-off:	0.54%
Collections curve: 85.25% of billings collected in first month after billing month, 14.21% in second month after billing month	
Forecasted annual ongoing transaction expenses (excluding Transition Bond principal and interest):	\$505,282
Required overcollateralization amount for applicable period:	\$208,334
Current Transition Bond outstanding balance:	\$500,000,000
Expected Transition Bond outstanding balance as of 08/15/2004:	\$477,456,761
Total Periodic Billing Requirement for applicable period:	\$57,588,250

Allocation of such total among customer classes, in accordance with Utilities Code Section 39.303(c): See Attachment 5

Based on the foregoing, the initial Transition Bond Charges calculated for retail users are as follows:

TABLE II

<u>Regulatory Asset Recovery Class</u>	<u>Initial Transition Charge</u>
Residential	\$0.000599 / kWh
General Service - Secondary	
Non-demand	\$0.000577 / kWh
Demand	\$0.158 / kW
General Service – Primary	
Non-demand	\$0.000395 / kWh
Demand	\$0.161 / kW
High Voltage Service	\$0.197 / kW
Lighting Service	\$0.000724 / kWh
Instantaneous Interruptible	\$0.083 / kW
Noticed Interruptible	\$0.150 / kW

IDENTIFICATION OF SPE

The owner of the Transition Property (the “SPE”) will be:

Oncor Electric Delivery Transition Bond Company LLC

EFFECTIVE DATE

In accordance with the Financing Order, the Transition Charge shall be automatically effective upon the Applicant’s receipt of payment in the amount of \$500,000,000 from the SPE, following Applicant’s execution and delivery to the SPE of the Bill of Sale transferring Applicant’s rights and interest under the Financing Order, rights and interests that will become Transition Property upon transfer to the SPE as described in the Financing Order.

NOTICE

Copies of this filing are being furnished to the parties on the attached service list. Notice to the public is hereby given by filing and keeping this filing open for public inspection at the Applicant's corporate headquarters.

AUTHORIZED OFFICER

An authorized officer of the Applicant shall execute and deliver this Issuance Advice Letter on behalf of the Applicant.

Respectfully submitted,



Kirk R. Oliver
Treasurer and Assistant Secretary

Attachments

ATTACHMENT 1
TRANSITION BOND ISSUANCE COSTS

VARIABLE COSTS	ACTUAL COSTS - THIS SERIES		ESTIMATED MAXIMUM SERIES THROUGH 2003		ESTIMATED MAXIMUM ALL SERIES	
Original Issue Discount	0.0000%	\$0	0.0000%	\$0	0.0000%	\$0
Underwriting Spread (1)	0.4800%	2,400,000	0.4800%	2,400,000	0.4800%	6,240,000
SEC Registration Fee	0.0081%	40,520	0.0092%	46,000	0.0092%	119,600
Subtotal Variable Up-front Expense (a)	0.4881%	\$2,440,520	0.5078%	\$2,446,000	0.5078%	\$6,359,600
FIXED COSTS						
Printing Fees		\$0		\$ 500,000		\$ 500,000
Trustee Fee and Counsel		14,792		10,000		10,000
Applicant Legal Fees and Expenses		2,215,656		2,000,000		2,000,000
Blue Sky Fees		0		30,000		30,000
Accountant's/Auditor's Fees		88,490		150,000		150,000
Rating Agency Fees		687,500		800,000		800,000
Legal Fees for Commission's Counsel		0		100,000		100,000
IRS Ruling Request Fee		6,000		5,000		5,000
SPE Startup Costs		0		0		0
Miscellaneous Fees		23,263		40,000		40,000
Application Preparation Costs		0		0		0
Up-front Servicer Setup Costs		0		500,000		500,000
Subtotal Fixed Up-Front Expenses (b)		\$ 3,035,701		\$ 4,135,000		\$ 4,135,000
REACQUISITION COSTS						
Current Estimate of Costs (c)		\$13,703,374		Not to exceed \$13,644,528		Not to exceed \$42,091,774
COMMISSION'S FINANCIAL ADVISOR COSTS (1)		\$942,308		Not to exceed \$942,308		Not to exceed \$2,450,000
Out of U/W Spread (1)		\$276,410		\$276,410		\$718,667
Remainder (d)		\$665,898		\$665,898		\$1,731,333
TOTAL ((a) + (b) + (c) + (d))		\$19,845,493				
AMOUNT INCLUDED IN TRANSITION BONDS						
				Not to exceed \$20,225,528		Not to exceed \$52,586,374
This series of bonds		\$19,845,493				
Total to date		\$19,845,493				
Excess costs over cap		\$0				

HEDGING ISSUANCE COSTS: [Describe if applicable]

Notes:

(1) \$718,667 of Commission's Financial Advisor Costs included in Underwriting Spread - \$276,410 in first tranche, \$442,257 in second

ATTACHMENT 2
TRANSITION BOND SUPPORT AND SERVICING COSTS *

SERVICING FEES	ACTUAL COSTS - THIS SERIES	ESTIMATED MAXIMUM - SERIES THROUGH 2003	ESTIMATED MAXIMUM - ALL SERIES
APPLICANT SERVICING FEES			
Annual Fee as Percent of Original Balance	\$400,000 minimum	0.05% \$400,000 minimum	0.05% \$650,000
THIRD PARTY SERVICING FEES			
Annual Fee as Percent of Original Balance	0.60%		0.60%

ANNUAL ONGOING FIXED OPERATING EXPENSES *	ACTUAL COSTS	ESTIMATED MAXIMUM - ALL SERIES THROUGH 2003	ESTIMATED MAXIMUM
Trustee Fee and Expenses	\$26,000	\$30,000	\$30,000
Independent Manager's Fee	4,000	0	0
Trust Operating Expense	5,000	50,000	50,000
Trust Accounting Expense	5,000	80,000	80,000
Rating Agency Fee	10,000	25,000	25,000
Administration Fee	50,000	0	0
Miscellaneous Fees and Expenses	\$13,846	0	0
Total Fixed Operating Expenses	\$113,846	\$185,000	\$185,000 **

* To the extent that contracts are entered into in connection with the issuance

** Limit on aggregate costs for all series

ATTACHMENT 3
TRANSITION BOND REVENUE REQUIREMENT INFORMATION
SERIES 2003-1

Complete this table for each class of each series of the Transition Bonds.

Class A-4

Payment Dates	Principal Balance	Interest	Principal	Servicing Fees	Over-collateralization Amount	Other Expenses	Total Revenues
08/21/03	145,000,000						
02/15/04	145,000,000	3,798,517	0	58,000	30,208	14,024	3,900,749
08/15/04	145,000,000	3,929,500	0	58,906	30,681	16,766	4,035,853
02/15/05	145,000,000	3,929,500	0	60,738	31,634	17,287	4,039,160
08/15/05	145,000,000	3,929,500	0	63,465	33,055	18,063	4,044,084
02/15/06	145,000,000	3,929,500	0	65,656	34,196	18,687	4,048,038
08/15/06	145,000,000	3,929,500	0	68,923	35,898	19,617	4,053,937
02/15/07	145,000,000	3,929,500	0	71,584	37,283	20,374	4,058,741
08/15/07	145,000,000	3,929,500	0	75,563	39,355	21,506	4,065,925
02/15/08	145,000,000	3,929,500	0	78,889	41,088	22,453	4,071,930
08/15/08	145,000,000	3,929,500	0	83,948	43,723	23,893	4,081,064
02/15/09	145,000,000	3,929,500	0	88,258	45,967	25,120	4,088,845
08/15/09	145,000,000	3,929,500	0	94,866	49,409	27,000	4,100,775
02/15/10	145,000,000	3,929,500	0	100,688	52,442	28,657	4,111,287
08/15/10	145,000,000	3,929,500	0	109,715	57,143	31,226	4,127,584
02/15/11	145,000,000	3,929,500	0	118,003	61,460	33,585	4,142,548
08/15/11	145,000,000	3,929,500	0	131,182	68,323	37,336	4,166,342
02/15/12	145,000,000	3,929,500	0	143,967	74,983	40,975	4,189,426
08/15/12	145,000,000	3,929,500	0	165,097	85,988	46,989	4,227,574
02/15/13	127,974,759	3,929,500	17,025,241	187,225	97,513	53,287	21,292,766
08/15/13	105,984,296	3,468,116	21,990,463	200,000	104,167	56,923	25,819,669
02/15/14	77,762,165	2,872,174	28,222,131	200,000	104,168	56,923	31,455,396
08/15/14	54,407,684	2,107,355	23,354,481	200,000	104,166	56,923	25,822,925
02/15/15	24,794,740	1,474,448	29,612,944	200,000	104,167	56,923	31,448,482
08/15/15	0	671,937	24,794,740	200,000	104,167	56,923	25,827,767
Totals		85,123,547	145,000,000	2,824,672	1,471,185	801,461	235,220,865

ATTACHMENT 4
COMPLIANCE WITH SUBCHAPTER G OF THE UTILITIES CODE

SCHEDULE A

**TANGIBLE & QUANTIFIABLE BENEFITS AND REVENUE REQUIREMENTS TESTS -
THIS SERIES:**

Name of Asset (List Each Asset Securitized)	(a) Present Value of Conventional Financing Over Securitized Life	(b) Present Value of Securitization Financing (excluding up-front and ongoing costs)	(c) Present Value of Up-front and On- going Costs	(d) Total Cost of Securitization (b) + (c)	(e) Savings/(Cost) of Securitization Financing (a) - (d)
SFAS 109	378,472,192	371,363,700	18,695,106	390,058,806	(11,586,614)
Securities Reacquisition Costs	131,266,416	76,647,232	3,858,557	80,505,789	50,760,627
Martin Lake Unit 4	1,109,553	1,603,123	80,704	1,683,827	(574,274)
Rate Case Exp. - Not earning	330,268	477,184	24,022	501,206	(170,938)
Rate Case Exp. - Earning	22,294,773	13,440,557	676,621	14,117,178	8,177,595
Vol. Retirement and Severance	7,249,698	10,474,630	527,311	11,001,941	(3,752,243)
DOE Decontamination Fund	1,580,049	2,282,912	114,926	2,397,838	(817,789)
Advance Notice Units	1,929,770	2,788,202	140,363	2,928,565	(998,795)
SO2 Allowance	(1,880,037)	(2,716,347)	(136,746)	(2,853,093)	973,056
Self Insurance Reserve	3,697,208	2,228,887	112,206	2,341,093	1,356,115
Totals	546,049,890	478,590,080	24,093,070	502,683,150	43,366,740

- (1) The discount rate to be used for determining the present value of columns (b) and (c) is the weighted average annual interest rate of the transition bonds, excluding up-front and ongoing costs.
- (2) The present value of up-front and ongoing costs are allocated based on the proportion of each asset's securitized present value in column (b) to the total of column (b).
- (3) The values for column (a) shall be calculated in accordance with the Commission's Office of Regulatory Affairs' methodology addressed in Finding of Fact No. 34 in the Financing Order.

Attachment 4, Schedule B
Page 1 of 4



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Treasurer and Assistant Secretary

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August 15, 2003

Public Utility Commission of Texas
1701 N. Congress Avenue
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Austin, TX 78711-3326

Re: *Joint Application for Approval of Stipulation Regarding TXU Electric Company Transition to Competition Issues*, Docket No. 25230

ONCOR ELECTRIC DELIVERY COMPANY (as successor in interest to TXU Electric Company, the "Applicant") submits this Certification pursuant to Ordering Paragraph No. 4 of the Financing Order in *Joint Application for Approval of Stipulation Regarding TXU Electric Company Transition to Competition Issues*, Docket No. 25230 (the "Financing Order"). All capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

In its issuance advice letter dated August 15, 2003, the Applicant has set forth the following particulars of the Transition Bonds:

Name of Transition Bonds:	Transition Bonds, Series 2003-1
SPE:	Oncor Electric Delivery Transition Bond Company LLC
Closing Date:	August 21, 2003
Amount Issued:	\$500,000,000
Interest Rates and Expected Amortization Schedule:	See Page 3 and Attachment 3 of Issuance Advice Letter
Distributions to Investors (quarterly or semi-annually):	Semiannually
Weighted Average Coupon Rate:	4.310%
Weighted Average Yield:	4.312%

The following activities and endeavors were taken by the Applicant in connection with the design, structuring and pricing of the bonds:

- Included credit enhancement in the form of the true-up mechanism, a 0.50% capital subaccount and a 0.50% overcollateralization subaccount.
- Registered the transition bonds with the Securities and Exchange Commission (the "SEC") to expand the potential investor base.
- Agreed with the Commission's financial advisor to have the SPE maintain its registration and periodic report filing obligation with the SEC and to continue filing such periodic reports (without regard to the number of bondholders and to the extent permitted by law).
- Agreed with the Commission's financial advisor to include additional information in such periodic reports filed with the SEC that includes: the monthly and semi-annual servicer certificates, collection account balances, outstanding transition bond balances that reflect the periodic payments, true-ups (including results) filed with the Commission, and a quarterly affirmation that, in all material respects, each materially significant REP has been billed, made payments and satisfied the creditworthiness requirements outlined in the Financing Order.
- Agreed to maintain a website to include all of the periodic reports, including additional information, filed with the SEC as well as the final prospectus for each series of transition bonds and a current organization chart for the SPE.
- Obtained IRS Private Letter Rulings as described in the Prospectus and as required in the Financing Order.
- Achieved AAA/Aaa/AAA ratings from all three of the major rating agencies.
- Worked with the rating agencies to arrange rating agency conference calls and issuance of pre-sale reports during the marketing period to address investor questions.
- Worked with the Commission's financial advisor to select underwriters that have experience related to transition bond offerings as well as other ABS offerings.
- Used a Joint Book-Runner structure for the underwriting team to broaden the base of potential investors contacted.
- Worked with the Commission's financial advisor and the underwriters (and each of their respective counsels) to finalize documentation in accordance with established standards for transactions of this sort and the terms of the Financing Order.
- Worked with the Commission's financial advisor and the underwriters to develop a summary term sheet (including computational materials) to be distributed to potential investors to show them the benefits of this transaction.

Attachment 4, Schedule B
Page 3 of 4

- Worked with the Commission's financial advisor and the underwriters to develop a marketing plan designed to reach the broadest possible market of potential investors.
- Held periodic conference calls with the Commission's financial advisor and economists from each of the underwriters to monitor market conditions that could possibly affect the underlying index (treasury issues) to be used to price the transition bonds.
- Considered variables impacting the final structure of the transaction including the relative benefit of a fixed versus floating rate issue, length of average lives and maturity of the bonds in light of market conditions and investor demand at the time of pricing and adapted the transition bond offering accordingly so that the structure of the transaction would correspond to investor preferences and rating agency requirements for AAA ratings.
- Investigated possible new, first-time buyers for transition bonds. For example: investors that typically buy corporate securities who could potentially be enticed to buy these bonds through relative value comparisons. Added the most likely of these new buyers to the targeted investor list.
- Designed the marketing plan to incentivize each of the underwriters to market the bonds aggressively to their customers and to reach out to a broad base of potential investors using proven marketing and underwriting processes.
- Held education sessions (in person and via conference call) with the respective sales forces from each of the underwriters to ensure their knowledge of the transaction and the relative value to the potential investors.
- Had multiple conversations with all of the members of the underwriting team during the marketing phase in which we stressed the requirements of the Financing Order.
- During the period that the bonds were marketed, held frequent market update discussions with the underwriting team to develop recommendations for pricing.
- Provided the preliminary prospectus and summary term sheet to prospective investors.
- Provided potential investors with access to an internet roadshow for viewing on repeated occasions at investors' convenience.
- Held one-on-one and group conference calls with investors, to describe the transition bonds including the legislative, political and regulatory framework and the bond structure.
- Allowed sufficient time for investors to review the preliminary prospectus, summary term sheet and internet roadshow presentation and to ask questions regarding the transaction.

Attachment 4, Schedule B
Page 4 of 4

- Worked with the Commission's financial advisor to develop bond allocations, underwriter compensation and preliminary price guidance designed to achieve lowest interest rates consistent with market conditions and the terms of the Financing Order.

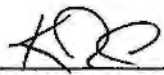
Based upon information reasonably available to officers, agents and employees of the Applicant, the Applicant hereby certifies that the structuring and pricing of the Transition Bonds, as described in the issuance advice letter, will result in the lowest transition-bond charges consistent with market conditions and the terms of the Financing Order, all within the meaning of Section 39.301 of PURA.

The foregoing certification does not mean that lower transition-bond charges could not have been achieved under different market conditions, or that structuring and pricing the Transition Bonds under conditions not permitted by the Financing Order could not also have achieved lower transition-bond charges.

The Applicant is delivering this Certification to the Commission and to the Commission's financial advisor, solely to assist them in establishing compliance with the aforesaid Section 39.301, and to no other person. The Applicant specifically disclaims any responsibility to any other person for the contents of this Certification, whether such person claims rights directly or as third-party beneficiary.

ONCOR ELECTRIC DELIVERY COMPANY

By:



Kirk R. Oliver
Treasurer and Assistant Secretary

Attachment 4, Schedule C
Page 1 of 1

SCHEDULE C
Securitization Cap:

- (1) The net amount of assets securitized as shown on Appendix C of the Financing Order: \$479,774,472 (1,247,413,626 x 5/13ths)
- (2) The securitization cap as shown on Attachment 4, Schedule A, column (a) of the Issuance Advice Letter: \$546,049,890

ATTACHMENT 5
ALLOCATION OF COSTS TO REGULATORY ASSET RECOVERY CLASSES

Regulatory Asset Recovery Class (1)	Allocation Factor (2)	Periodic Billing Requirement (3)	Billing Requirement per Rate Class (4) = (2) x (3)	Forecasted kWh/kW (5)	Transition Charge (6) = (4) / (5)
Residential Service	0.412705	\$57,588,250	\$23,766,959	39,672,508,000	\$0.000599
General Service - Secondary	0.447323				
Non-demand		\$57,588,250	\$699,139	1,212,096,000	\$0.000577
Demand *		\$57,588,250	\$25,061,410	158,119,834	\$0.158
General Service - Primary	0.058982				
Non-demand		\$57,588,250	\$10,275	26,015,000	\$0.000395
Demand *		\$57,588,250	\$3,386,395	21,032,413	\$0.161
High Voltage Service *	0.027875	\$57,588,250	\$1,605,272	8,146,642	\$0.197
Lighting Service	0.006836	\$57,588,250	\$393,673	543,613,000	\$0.000724
Instantaneous Interruptible *	0.018568	\$57,588,250	\$1,069,299	12,880,562	\$0.083
Noticed Interruptible *	0.027711	\$57,588,250	\$1,595,828	10,659,455	\$0.150
Total	1.000000		\$57,588,250		

* Charges are based on a per kW charge. All other classes are based on a per kWh charge.

INTERNAL REVENUE SERVICE

Department of the Treasury

Index Number: 61.00-00; 61.03-00; 61.43-Washington, DC 20224
00; 451.01-00

John F. Stephens
Assistant Secretary
TXU US Holdings Company
Energy Plaza, 1601 Bryan, 46th Floor
Dallas TX 75201

Person to Contact:
Thomas Preston (ID NO 50-05811)
Telephone Number:
202) 622-3940
Refer Reply To:
CC:FI&P:2-PLR-107643-02
Date:
May 21, 2002

Legend:

Parent	=	TXU Corporation EIN: 75-2669310
Company	=	TXU Electric Company EIN: 75-1837355
Subsidiary	=	Oncor Electric Delivery Company EIN: 75-2967830
Issuer	=	TXU Transition Bond Company LLC EIN: 75-2851358
Date A	=	February 18, 2000
Date B	=	January 1, 2002
State A	=	Texas
State B	=	Delaware
Statute	=	Senate Bill 7 of the 76th Texas Legislature
Notes	=	Transition Bonds
a	=	1.30 billion
b	=	0.5
c	=	15
d	=	5

Dear Mr. Stephens:

On Date A, this office issued a private letter ruling (PLR # 200020045) ("Initial Ruling") concluding that the issuance of a financing order by the State A public utility commission (PUC) authorizing the collection of special charges to recover the utilities' regulatory assets and certain stranded costs, and the transfer to the Company of proceeds from the issuance of Notes did not result in gross income to Company, and that the Notes issued to investors by a special purpose entity (Issuer) would be obligations of the Company.

PLR-107643-02

In a letter dated January 31, 2002, you requested a supplemental ruling because the structure of the proposed transaction changed as a result of the restructuring of the Company. Except as described below, all facts and representations cited in the Initial Ruling are incorporated for purposes of this letter. Any terms defined or legended in the Initial Ruling have the same meaning in this letter.

State A recently introduced competition into its electric industry. As a result, beginning on Date B, Company's customers were allowed to contract directly with alternative suppliers of electricity, and Company began competing with other parties to sell electricity. To implement deregulation, State A enacted Statute, which requires utilities to divide their business activities into a power generation company, a retail electric provider, and a transmission and distribution utility. In order to comply with Statute, Company formed and contributed all of its transmission and distribution assets to Subsidiary, a newly formed, wholly owned subsidiary of Company. Subsidiary, which like Company is regulated by State A's PUC, also assumed all of the liabilities related to the transmission and distribution assets contributed by Company.

Subsequent to the issuance of the Initial Ruling, Company and Subsidiary reached a settlement with PUC staff and several other interested parties whereby Company expects to be issued a financing order authorizing the recovery of regulatory assets, certain other qualified costs, and other expenses relating to the issuance and sale of the Notes, in the aggregate amount of \$a, an amount that is less than the amount referenced in the Initial Ruling.

The restructuring undertaken after the issuance of the Initial Ruling to comply with the Statute's requirement that Company separate its business activities into three components, as well as the settlement reached for the issuance of a financing order allowing the Company to securitize an amount of costs different from the amount in the Initial Ruling, do not adversely affect the analysis in the Initial Ruling. Accordingly, the conclusions reached in the Initial Ruling issued on Date A that (1) the issuance of the financing order and the transfer of rights under the financing order to the Issuer will not result in gross income to Company; (2) the issuance of the Notes and the transfer of the proceeds to Company will not result in gross income to Company; and (3) the Notes will be obligations of the Company, are not affected.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative. A copy of this letter must be attached to any income tax return to which it is relevant.

PLR-107643-02

This ruling is directed only to the taxpayer(s) requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

Sincerely,

/s/ William E. Coppersmith

William E. Coppersmith
Chief, Branch 2
Office of Associate Chief Counsel
(Financial Institutions & Products)

Internal Revenue Service

Department of the Treasury

Index Number: 61.00-00; 61-03-00; Washington, DC 20224
61.43-00; 451.01-00

Laurie S. Marsh
Thelen Reid & Priest LLP
40 West 57th Street
New York, NY 10019

Person to Contact:
Thomas M. Preston (ID NO. 50-05811)
Telephone Number:
(202) 622-4443
Refer Reply To:
CC:DOM:FI&P:2-PLR-117128-99
Date:
Feb. 18, 2000

Legend:

Parent	=	Texas Utilities Company, dba TXU Corp EIN: 75-2669310
Company	=	TXU Electric Company EIN: 75-1837355
Issuer	=	TXU Transition Bond Company LLC EIN: To be determined
State A	=	Texas
State B	=	Delaware
Statute	=	Senate Bill 7 of the 76th Texas Legislature
Notes	=	Transition Bonds
a	=	1.650 billion
b	=	0.5
c	=	15
d	=	5

Dear Ms. Marsh:

This letter is in reply to your letter dated October 20, 1999, asking the Internal Revenue Service to rule on the transaction described below.

FACTS

Company, a calendar year taxpayer that uses the accrual method of accounting, operates an electric utility in State A. Company generates, transmits, and distributes electricity to residential, commercial, and industrial customers within a designated territory. Company has the right to sell electricity at retail within its territory and is regulated by State A's public utility commission (PUC) and, to a limited extent, the Federal Energy Regulatory Commission.

State A is deregulating its electric industry. As a result, Company's customers will be allowed to contract directly with alternative suppliers of electricity, and Company will compete with other parties to sell electricity.

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To facilitate deregulation, State A enacted Statute, which allows utilities in State A to impose special charges on their customers to recover the utilities' regulatory assets and certain stranded costs. Regulatory assets are assets of a utility for financial accounting purposes. They reflect costs incurred by the utility in prior periods that the utility expects to recover through regulated rates in the future. With deregulation, the Statute allows the generation-related regulatory assets to be recovered through the special charges. Stranded costs are the uneconomic portions of a utility's prudently incurred costs of generation-related assets and obligations. In general, stranded costs reflect the difference between the book value and the market value of these assets. As with regulatory assets, the Statute allows the utility to impose the special charges to recover these costs.

Under Statute, a utility may apply to PUC for a financing order permitting it to recover a specified amount of the costs described above. The special charges authorized by the financing order are called transition charges (TCs) and are imposed on substantially all of a utility's customers in the utility's service area. The TCs are "nonbypassable" and generally cannot be avoided even if a customer buys electricity from another source. The TCs are based, in part, on the amount of electricity purchased by, or made available to, the consumer, whether from the utility or from an alternative supplier.

The utility also may request the PUC to approve the issuance of securities called transition bonds that are secured by the utility's rights to the TCs. The amount of transition bonds approved in the financing order may include the amount of the regulatory assets and/or stranded costs that can be recovered plus the costs of issuing the transition bonds and using the proceeds to retire existing debt and equity of the utility.

Under the financing order, the TCs to be collected by a utility generally will be based on the amount of electricity provided to, or made available to, each customer. Actual collections of the TCs will vary from expected collections due to a number of factors including power usage and delinquencies. The financing order will require the adjustment of the TCs at least annually. Under Statute, when the right to collect TCs and the other rights under the financing order are assigned by the utility to another entity, the rights become a separate property right that is called transition property.

Proposed Transaction

Company has applied to PUC for a financing order authorizing Company to recover regulatory assets in the amount of \$a and to issue Notes that will qualify as transition bonds in an aggregate principal amount of approximately \$a. The actual principal amount will be determined when the Notes are issued based on the costs incurred in the proposed transaction. These costs relate to credit enhancement, servicing fees, and other expenses relating to the issuance and sale of

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the Notes and the retirement of certain of its existing debt and equity. The financing order will authorize TCs in an amount needed to service the Notes, pay transaction costs, and provide for credit enhancement. The financing order also will provide that the right to collect the TCs may be assigned to a special purpose entity (the Issuer), at which point the right becomes transition property.

Company will form Issuer under State B law as a bankruptcy remote limited liability company solely for the purpose of effectuating the proposed transaction. Company will be the sole member of Issuer. Issuer will not elect to be treated as an association taxable as a corporation under Section 301.7701-3(b)(1) of the Procedure and administration Regulations. Company will contribute, as equity to Issuer, cash at least equal to b percent of the issue price of the Notes.

Pursuant to the financing order, Company will transfer the rights that will become the transition property to Issuer, and Issuer will issue and sell Notes to investors. The proceeds from the sale of the Notes, net of issuance costs, will be transferred to Company in consideration for the transition property.

Issuer will initially issue one series of Notes, which may be comprised of one or more classes, each having a different final maturity date. The Notes will have final maturities of no more than c years, and expected maturities, to be determined when the bonds are issued, of less than c years. The expected maturity is the date when all of the principal and interest on a class of Notes is expected to be paid; the final maturity date is the date on which nonpayment is a default.

Interest on the Notes will be payable quarterly or semi-annually at rates that are based on yields that are commensurate with similarly rated debt obligations with comparable weighted average maturities. The Notes are expected to be sold at or near their stated principal amounts. Principal payments will be scheduled to be made quarterly or semi-annually. Principal will be applied in sequential order to each class until the outstanding principal balance of the class is reduced to zero.

In general, the Notes will be payable solely out of the transition property and other assets of Issuer. However, the Notes may be subject to an optional "clean-up" call when the outstanding principal declines to less than d percent of the original issue price. Because the classes will be allocated principal in sequential order, the clean-up call will apply only to the class or classes with the longest maturities.

Initially, Company will act as servicer of the transition property. As servicer, Company will bill and collect TCs from customers, remit amounts collected to Issuer and retain all books and records with respect to the TCs. Deposits of TCs are expected to be

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made to a Collection Account within two business days of the receipt of funds (or less frequently with rating agency approval). Pending such deposits, Company will keep records of the amount of such undeposited collections, although it may commingle such amounts with its other funds. Any investment income earned on the TCs prior to remittance will be retained by Company. With certain restrictions, Company may be replaced as servicer. Company will receive a fee as Servicer that will be paid quarterly.

After customer choice is implemented in State A, third-party retail electric providers (REPs) generally will bill and collect payments, including TCs, from customers. In that event, Company, as servicer, will bill the REP for the TCs. REPs may be required to take additional steps to ensure that timely payments will be made, including providing cash deposits of estimated collections. Nonetheless, in all events, the amounts paid will be based on the amount of electricity provided or made available to the customer.

The TCs will be set to provide for the recovery of the costs associated with billing and collecting the TCs as well as for an overcollateralization amount, that will eventually reach at least b percent of the original principal amount of the Notes. The overcollateralization amount will be collected approximately ratably over the expected term of the Notes.

A Collection Account will be established as credit enhancement for the Notes. The Collection Account will consist of four subaccounts entitled General, Overcollateralization, Capital, and Reserve. The General Subaccount will hold all funds in the Collection Account not held in any of the other subaccounts. The servicer will remit all TC collections to the General Subaccount, and the trustee will use the amounts in the General Subaccount to make payments in the following order of priority: (1) certain fees and expenses of Issuer (2) interest on the Notes, (3) specified amounts of principal on the Notes, (4) other expenses and (5) amounts needed to replenish certain Collection Account subaccounts. Investment income earned on the Collection Account also will be available to make these payments. Any remaining unallocated amounts are allocated to the Reserve Subaccount for distribution on subsequent payment dates. Once all Notes (including any new series of transition bonds issued pursuant to a subsequent financing order) have been paid in full, the balance in the Collection Account, if any, will be released to the Issuer or as it directs.

To the extent that the General Subaccount in any period is insufficient to make the required payments, the Trustee will draw upon the Reserve Subaccount, the Overcollateralization Subaccount, and finally, the Capital Subaccount to make these payments. To the extent that amounts in the Capital Subaccount or the Overcollateralization Subaccount are used to make payments of interest, principal, and expenses, future TCs will be adjusted to replenish those subaccounts.

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The Notes will provide for the following events of default: (1) a default in the payment of interest that is not cured within five business days, (2) a default in the payment of outstanding principal on the final maturity date, (3) a default in the payment of the redemption price on a redemption date, (4) certain breaches of covenants, representations or warranties by Issuer that go unremedied for 30 days and (5) certain events of bankruptcy or insolvency of Issuer.

In the event of a payment default, the trustee or holders of a majority in principal amount of the Notes then outstanding may declare the Notes to be immediately due and payable.

The Notes will be nonrecourse to Company and will be secured only by, and generally payable solely out of, Issuer's assets, which will include the transition property, the servicing agreement, the Collection Account, and the rights to obtain adjustments to the TCs. Company expects the Notes to obtain the highest rating from two or more nationally recognized credit rating agencies.

ISSUES

Does the issuance of the financing order and the transfer of the rights under the financing order to Issuer result in gross income to Company?

Does the issuance of the Notes and the transfer of the proceeds to Company result in gross income to Company?

Are the Notes obligations of Company?

LAW

Section 61 of the Internal Revenue Code generally defines gross income as "income from whatever source derived", except as otherwise provided by law. Gross income includes income realized in any form, whether in money, property, or services. Section 1.61-1(a) of the Income Tax Regulations. This definition encompasses all "accessions to wealth, clearly realized, and over which the taxpayers have complete dominion." Commissioner v. Glenshaw Glass Co., 348 U.S. 426, 431 (1955), 1955-1 C.B. 207.

The right to collect the TCs is of significant value in producing income for Company. Moreover, State A's action in making the TC rights transferable has enhanced that value. Generally, the granting of a transferable right by the government does not cause the realization of income. Rev. Rul. 92-16, 1992-1 C.B. 15 (allocation of air emission rights by the Environmental Protection Agency does not cause a utility to realize gross income); Rev. Rul. 67-135, 1967-1 C.B. 20 (fair market value of an oil and gas lease obtained from the government through a lottery is not includable in income).

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The economic substance of a transaction generally governs its federal tax consequences. *Gregory v. Helvering*, 293 U.S. 465 (1935), XIV-1 C.B. 193. Affixing a label to an undertaking does not determine its character. Rev. Rul. 97-3, 1997-1 C.B. 9. An instrument secured by property may be an obligation of the taxpayer or, alternatively, may be a disposition of the underlying property by the taxpayer. Cf. *id.* (the Small Business Administration is the primary obligor of certain guaranteed payment rights that are created under its participating security program).

CONCLUSIONS

Based on the facts as represented, we rule as follows:

(1) The issuance of the financing order and the transfer of the rights under the financing order to Issuer will not result in gross income to Company.

(2) The issuance of the Notes and the transfer of the proceeds to Company will not result in gross income to Company.

(3) The Notes will be obligations of Company.

Except as specifically ruled on above, no opinion is expressed or implied regarding the federal tax aspects of the transaction.

This ruling is directed only to Company. Under section 6110(k)(3) of the Code, this ruling may not be used or cited as precedent.

A copy of this letter should be attached to the federal income tax return of Company for the taxable years that include the transaction described in this letter.

Sincerely yours,
Assistant Chief Counsel
(Financial Institutions & Products)

By: /s/ Marshall Feiring
Marshall Feiring
Senior Technician Reviewer, Branch 2

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for issuance of nuclear asset-recovery financing order, by Duke Energy Florida, Inc. d/b/a Duke Energy.

DOCKET NO. 150171-EI

DATED: SEPTEMBER 4, 2015

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the testimony of Rebecca Klein on behalf of the staff of the Florida Public Service Commission was electronically filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following by electronic mail, on this 4th day of September, 2015.

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